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The fiscal cupboard will remain bare
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World Business Newspaper
TUESDAY JULY 9 1996

Sumitomo plans to diversify with satellite TV launch

Sumitomo Corporation, the Japanese trading group, is to launch what it says will be the world's first quadrilingual television station. It will broadcast Japanese-produced entertainment programmes to 10 Asia-Pacific countries from January on Jet TV, a 24-hour channel to be based in Singapore. Viewers will be able to choose from Japanese, Thai, Chinese and English by touching a button on a handset. Sumitomo's move into foreign broadcasting is the latest diversification by Japanese trading houses keen to find more profitable ventures. Page 15

Wiretap scandal erupts in France: A new political scandal broke out in France after the defence ministry admitted ordering wiretaps on two senior aides to former defence minister François Léotard. Page 14

Russian bank goes into administration: The Russian central bank took over one of the country's largest banks, provoking fears that the nation's fragile banking sector could be on the verge of a wider crisis. Tveruniversalbank will be under the central bank's administration until September 1, when the authorities will review its position. Page 3

Confrontation in Ulster: Unionist politicians threatened to withdraw from the all-party Ulster peace talks over a stand-off between Protestants and police in Portadown, Northern Ireland. Page 8

Turkish coalition wins confidence vote: Turkey's parliament confirmed Necmettin Erbakan in office as the country's first Islamist prime minister. The coalition of Mr Erbakan's Islamic party Refah and the centre-right True Path party was approved by 13 votes in the 550-member parliament. One politician who voted against the coalition was punched by a colleague. Page 14

GM appoints distributors in Japan: Saturn, the US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, appointed its first six distributors in Japan. Page 14

Delta urges block on BA-American link: Delta Air Lines became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed. Page 4; Personal View, Page 12

Call to arrest Karadzic: The US official in charge of overseeing Bosnia's forthcoming elections urged Nato to arrest Bosnian Serb leader Radovan Karadzic and other members of his community who are wanted for war crimes. Page 2

Attack at UK infants' school: Three children and four adults were injured when a man with an axe or machete burst into an infants' school in Wolverhampton, central England. Police were last night hunting the attacker. The incident came less than four months after the Dunblane tragedy in Scotland in which 16 pupils were killed.

Herod's name found on 2,000-year-old jug: The remains of a 2,000-year-old clay wine jug inscribed with the name of King Herod have been discovered, Israeli archaeologists said. Herod was king of Judea from 37 BC until his death in 4 BC.

Tennis: Fifteen-year-old Martina Hingis, from Switzerland, became the youngest player to win a Wimbledon title when she and Czech-born Helena Sukova beat Meredith McGrath of the US and Latvia's Larissa Neiland in the women's doubles.

Cricket: England were poised for a draw against India after they finished on 550 for 7 at the end of the fourth day of the third Test at Nottingham, giving them a 29-run lead over the visitors.

Aids activists protest at conference:

Aids activists protesting before the opening of the Eleventh International Aids Conference in Vancouver, Canada. They called for the optimism of researchers and drugs companies to be tempered with realism. The conference was told the number of people infected with the AIDS virus worldwide is expected to double by 2000, with a huge increase likely in India. Early use of new Aids drugs urged, Page 4; Editorial Comment, Page 13

■ STOCK MARKET INDICES

FT-SE 100:	3,741.5	(-1.7)
Yield	4.06	
FT-SE Eurotrack 100	1,686.42	(-13.93)
FT-SE-A All-Share	1,864.78	(-0.2%)
Nikkei	21,924.94	(-307.48)
New York lunchtime		
Dow Jones Ind Ave	5,591.83	(+3.69)
S&P Composite	658.92	(-0.52)

■ US LUNCHTIME RATES

Federal Funds:	5¼%
3-mo Treas Bills: Yld	5.257%
Long Bond	85⅜
Yield	7.163%

■ LONDON MONEY

3-mo Interbank	5¾%	(5⅞%)
Liffe long gilt future:	Sep 106⅝	(Sep106⅜)

■ NORTH SEA OIL (Argus)

Brent Dated	$19.52½	(20.1)

■ GOLD

New York Comex (Aug)	$382.1	(382.5)
London	$381.9	(381.65)

■ STERLING

New York lunchtime:		
$	1.55285	
London:		
$	1.5543	(1.5551)
DM	2.3746	(2.3761)
FFr	8.0386	(8.0308)
SFr	1.9635	(1.9624)
Y	172.25	(172.432)
£ Index	86.7	(same)

■ DOLLAR

New York lunchtime:		
DM	1.52775	
FFr	5.1722	
SFr	1.26485	
Y	110.985	
London:		
DM	1.5278	(1.528)
FFr	5.172	(5.164)
SFr	1.2633	(1.2619)
Y	110.825	(110.885)
$ Index	97.7	(97.6)

Tokyo close Y 111.5

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr12.00	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L90,000
		Lebanon	LL3,000			UAE	Dh12.00

Efforts to meet Maastricht deficit limit intensified in draft budget

Bonn plans 2.5% spending cuts

By Peter Norman in Bonn

The German federal government plans to cut spending in 1997 for the third year in succession as part of its intensifying efforts to bring the country's public sector deficit below the limit set by the Maastricht treaty.

The draft budget, to be presented tomorrow to the cabinet by Mr Theo Waigel, the finance minister, envisages a 2.5 per cent drop in federal spending to DM440.2bn ($289.6bn) next year from a planned DM451.3bn this year and a decline in Bonn's net borrowing requirement to DM56.5bn from DM59.9bn.

Mr Waigel will tell his colleagues that the federal government will fulfil the promise made in April to cut existing spending plans by DM25bn next year as part of its programme of spending reductions, supply side reforms and welfare restructuring to boost growth and jobs. The cabinet meeting will set the seal on negotiations between the finance ministry and spending ministries on DM7bn of departmental cuts left vague in the April package.

Bonn is aiming to bring Germany's overall deficit down to 2.5 per cent of gross domestic product next year and so below the 3 per cent Maastricht ceiling. But success will depend crucially on whether the federal states or Länder can produce a total of DM25bn of budget cuts through their individual efforts after failing last week to agree a joint austerity programme.

Yesterday, EU finance ministers meeting in Brussels received an assessment by the EU's monetary committee of each member country's prospects for qualifying next year for monetary union. It warned that Germany, among others, would have to take additional steps to reduce its public debt and deficit.

Details of the 1997 draft federal budget were circulating unofficially in Bonn yesterday. Cuts are envisaged in 18 of 26 individual spending plans next year, with the ministries of economics, transport, defence and agriculture accounting for DM4bn of the DM7bn of cuts negotiated in recent weeks.

The transport budget is set for a particularly sharp fall to DM45bn in 1997 from a planned DM51bn this year, although investments should be protected because of increases in other revenues including asset sales.

Defence, the subject of a well publicised tussle between Mr Waigel and Mr Volker Rühe, the defence minister, will see its budget cut to DM46.5bn next year from the DM48.2bn set aside in recently published plans for this year. The budget of Mr Günter Rexrodt, the economics minister, who left an intensive care ward yesterday six weeks after contracting malaria, will decline by 8.4 per cent to DM17bn from DM18.6bn planned for this year.

The labour and social affairs ministry remains the biggest federal spender by far next year, although its budget is set to decline to DM122.1bn from a planned DM124.6bn in 1996.

Increased spending will mainly cover the growing costs of the planned move of Germany's government from Bonn to Berlin.

Continued on Page 14
A knife to spending, Page 2

UK to probe alleged breach of EU beef ban

By Neil Buckley in Brussels, Alison Maitland in London and Michael Lindemann in Bonn

The European Union agriculture commissioner said yesterday that he was taking "very seriously" reports that UK beef destined for destruction because of the export ban had circumvented controls and been found in Italy.

Mr Franz Fischler, emphasising there was no proof of an abuse of the three-month-old ban, said he was writing to Mr Douglas Hogg, the UK agriculture minister, asking him to investigate.

He is also asking Mr Horst Seehofer, the German health minister, for more information after the alarm was raised by the German ambassador in Rome. Other EU farm ministers have been alerted, as well as Ms Anita Gradin, the commissioner responsible for combating fraud.

The UK agriculture ministry said it needed evidence before it could investigate. "We're not issuing any export certificates, so if it were happening it would be illegal," the ministry said. "But we have got no evidence that it is happening."

Any suggestion the UK is being slack in controlling exports could arouse further suspicions in EU states over its handling of the beef crisis and delay the start of the phased lifting of the export ban.

The German health ministry said it had written to the European Commission last Thursday asking it to investigate reports that British beef infected with bovine spongiform encephalopathy, or mad cow disease, was being smuggled into continental Europe – in one case disguised as a shipment of potatoes.

The German embassy in Rome had reported that it had "confidential information" that infected British beef was being smuggled into Italy.

The Rome report said Belgian police had evidence the export ban was being circumvented and that animals which were supposed to be culled had found their way to Italy via Scotland, Ireland and France with forged Belgian health certificates. Such incidents were "not one-off ones", the Rome report said.

It added that on June 28 the Italian authorities had held up a shipment of potatoes which turned out to be British beef.

Commission inspectors are due to visit Britain again on July 22 to monitor other elements of the UK's BSE control and eradication programme, after a previous visit found that controls could be improved.

The Commission's agriculture spokesman Gerard Kiely said Fischler wrote to British agriculture minister Douglas Hogg asking what steps had been taken to prevent British beef being exported.

"Britain must have effective control measures to prevent illegal exports," said a spokesman.

Ms Jenny Burt of the UK's International Meat Trade Association, which represents exporters, said: "The beef is worth quite a lot of money through the cull – more than its current market value – and I can't see why anyone would do it."

Environmental activists attempted to stop a bus at the gate of the site of the Temelin nuclear power station in the Czech Republic yesterday. About 2,000 people protested against completion of the Russian-designed power plant. The first of two units is scheduled to begin operation in November. Picture: Reuter

BSkyB links with Kirch to develop Germany's pay TV

By Raymond Snoddy in London

British Sky Broadcasting and Kirch Gruppe, the German media company, are to set up a joint venture to develop digital pay television in Germany.

BSkyB, the UK satellite television company owned by Mr Rupert Murdoch, has agreed to take a stake of up to 49 per cent in DF1, Kirch's digital television company which plans to launch an initial 17 channels of digital television in Germany on July 28.

BSkyB is expected to invest £200m ($312m) in the venture over the next few years and DF1 may move quickly to provide up to 200 television channels to German audiences.

Negotiations with Kirch began almost as soon as BSkyB decided that an alliance including Bertelsmann, the German media group, and Canal Plus, the French pay television company was not performing. BSkyB pulled out of this "grand alliance".

BSkyB has argued that there should be one "platform" offering digital satellite television services for the German market. It believes the Kirch joint venture now will make it very difficult for other companies to compete.

Together the two companies have 16 satellite transponders which broadcast the television signal to earth, each of which can be turned into at least 10 television channels.

Mr Gottfried Zmeck, chief executive of DF1, said yesterday that with BSkyB, Kirch had a partner "who will enhance the development of our digital platform in Germany with its experience as Europe's most successful pay television operator".

Kirch has significant rights to films throughout the German-speaking world and last week the company outbid Europe's public service broadcasters to win the biggest football broadcasting contract. Together with ISL, the Swiss marketing company, Kirch bid SFr2.8bn ($2.2bn) for the rights to the 2002 and 2006 World Cup finals outside the US. Fifa, the football body, has emphasised that the games must be shown on free, rather than pay, television.

The main target of the new venture will be the German market, but it is believed the two companies intend to launch digital services elsewhere in Europe. The most likely target is Italy.

BSkyB plans to launch at least 200 digital channels in the UK in the last quarter of 1997 and last week made clear to set-top decoder manufacturers that it wanted 1m decoders in the shops by September 1997.

The new digital DF1 service will feature an initial 10 film channels and deals are believed to be in place for channels such as MTV, Nickelodeon and Discovery. Yesterday NBC Super Channel and its sister business service CNBC announced that they would be part of the DF1 programme package.

Lex, Page 14; Sumitomo satellite TV station, Page 15

Airbus consortium to become a single company

By Michael Skapinker in London

Airbus Industrie, the four-country European aircraft manufacturing consortium, announced yesterday that it is to turn itself into a single company.

The change is aimed at turning Airbus – the world's second biggest aircraft maker – into a lower-cost, more focused competitor to Boeing of the US, its larger rival, able to take decisions more rapidly and award component contracts to lower cost manufacturers.

Airbus said the change would take three years to complete.

The decision follows years of debate over whether it should abandon its non-profit status in favour of a conventional corporate structure.

Founded in 1970, Airbus is a *Groupement d'Intérêt Economique*, which means that profits and losses accrue to the four partner companies rather than to the consortium itself. The four companies – Aérospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain – also share manufacturing work in proportion to their holdings. They have been divided over the wisdom of becoming a limited company.

BAe has been a strong supporter of the change, supported by Mr Jean Pierson, Airbus's managing director, who argued that the manufacturer had to become a limited company if it was to drive down costs sufficiently to challenge Boeing. Dasa and Aérospatiale were more reluctant, but threw themselves behind the drive for change.

The UK and German governments also have pressed for change. The German government said earlier this year that it would not fund any future aircraft developments unless Airbus became an integrated company. This would have prevented Airbus from proceeding with plans to build the A3XX, a 550-seat "super jumbo" whose development costs are expected to be over $8bn.

The supporters of change say

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NEWS: EUROPE

EU states censured over Emu progress

By Lionel Barber in Brussels

European Union finance ministers yesterday delivered a blunt warning to 12 member states, including Britain, France and Germany, to trim their budget deficits in order to stay on course for monetary union in 1999.

Only Denmark, Ireland and Luxembourg escaped censure at the ministerial meeting in Brussels yesterday. Sweden and Belgium were singled out for praise, however, for having made substantial "statistical" progress since March in bringing their finances under control.

The warnings are part of the EU's "excessive deficit procedure" – the annual evaluation of progress toward the Maastricht treaty's deficit and debt criteria which amount, respectively, to 3 per cent and 60 per cent of gross domestic product.

The Brussels meeting was the first under the Irish presidency which is pledged to inject fresh momentum into the debate on employment after last month's inconclusive EU summit in Florence.

Mr Ruairi Quinn, the Irish finance minister, announced that ministers had agreed to set up a high-level political group to study the European Commission's request for an extra Ecu1bn ($1.25bn) to fund spending on EU transport networks.

The Irish presidency set out an ambitious work programme for the next six months, including stiffening measures to tackle fraud against the Union's budget and wrapping up all technical aspects of the transition to the single currency by the end of the year.

Issues include the relationship between Emu participants and those outside the euro-zone, the German plan for a stability pact to enforce budgetary discipline in the post-Emu world, and the operation of a new model exchange rate mechanism.

Mr Kenneth Clarke, Britain's chancellor of the exchequer, said membership of the ERM Mark II would be voluntary. Britain would not face discrimination if it remained outside. However, he acknowledged concern in the Bank of England over reports that banks based in countries outside the single currency zone could become "second class citizens" in dealing in the euro.

French and German bankers are understood to be pressing for tighter controls to be imposed on non-Emu domiciled banks seeking access to euro liquidity during trading hours.

Mr Clarke said Mr Eddie George, Bank of England governor, had raised the matter after a meeting of EU central bankers last week. "I would want to see the City of London treated on the same basis as Paris or Frankfurt," he said.

Separately, Mr Jean Arthuis, the French finance minister, said politicians should be involved in the design of the new euro notes rather than leaving it to central bankers. Mr Quinn agreed.

Mr Kenneth Clarke, the UK chancellor, yesterday endorsed a call by the EU monetary committee not to jeopardise Britain's eligibility for a single currency by tax cuts in this year's budget which many Tories believe are essential to prevent a Labour general election victory, write John Kampfner and Lionel Barber. He said he was not prepared to jeopardise his plans to restore order to the public finances after an unexpected shortfall in this year's revenues.

The committee's recommendations call for Britain to end its excessive deficit "as rapidly as possible". The target of 4.5 per cent of gross domestic product recommended for 1995/6 is unlikely to be met, it says.

Mr Clarke was "entirely content" with the recommendations. "Tax cuts are a very good thing, but you only get tax cuts when you have got your spending under control, still respect your priority spending commitments, and got your borrowing on a firm downward path."

He will unveil the Treasury's summer forecast today, the first official indication of the government's economic assumptions since last November's budget. It is expected to revise down the projected pace of growth this year and show a significant upward revision in the level of public sector borrowing.

Setback for Rühe as military spending is cut again

Kohl intervenes in row over defence budget

By Michael Lindemann in Bonn

An unusually vocal dispute between two senior German ministers about the size of Germany's defence budget – a dispute which featured a personal intervention by Chancellor Helmut Kohl – was yesterday papered over when it was agreed that the armed forces would get DM46.6bn ($30.6bn) to spend next year.

The figure represents a compromise between Mr Theo Waigel, finance minister, and Mr Volker Rühe, defence minister. It has been painstakingly agreed under Mr Kohl's supervision to help ensure that Germany's budget deficit next year does not exceed 3 per cent of gross domestic product as set out in the Maastricht treaty.

The 1997 budget nonetheless represents a considerable setback for Mr Rühe who has seen his budget dwindle significantly in recent years as Germany has been forced to find more savings. He started out with DM48.2bn this year, but that was cut to DM47.1bn after Mr Waigel introduced a cap on government spending in March.

Mr Kohl has attempted to console his defence minister by assuring him that his budget will grow gradually in coming years so that by 2000 he would have DM48.5bn to spend. Mr Waigel had wanted the defence budget reduced to DM46bn and raised only slightly to DM46.3bn in 2000.

However, there are likely to be questions over the value of Mr Kohl's assurances, given that Mr Rühe was told – in writing – after the general election in 1994 that he would have DM48.5bn to spend every year between 1996 and 1999.

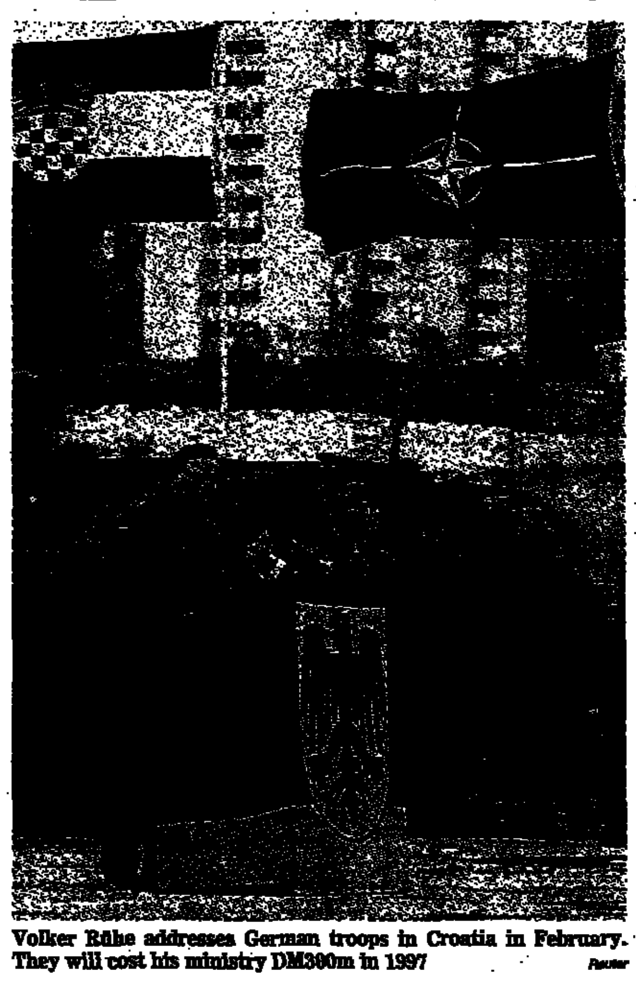
The defence ministry said yesterday a number of Franco-German weapons projects, including the Tiger attack helicopter and the Helios reconnaissance satellite, would have to be reviewed in the light of smaller defence budgets in both countries.

A final decision about the viability of these projects would be made at the next biannual Franco-German summit in the autumn.

In a weekend press report Mr Rühe had said that he regarded the NH90 transport helicopter, which is being developed with France, Italy and the Netherlands, as more important than the Franco-German Tiger.

Mr Rühe's real spending power on new weaponry for the Bundeswehr is also likely to be lower than the headline figure of DM46.6bn because he will have to find DM300m in the 1997 budget to finance German soldiers currently stationed in Croatia.

Mr Kohl had to call Mr Rühe to order last week after the defence ministry leaked a letter Mr Rühe had written to the chancellor warning him that the proposed budget cuts would have a drastic effect on the Bundeswehr.



Volker Rühe addresses German troops in Croatia in February. They will cost his ministry DM300m in 1997 Reuter

Waigel takes a knife to spending

By Peter Norman in Bonn

The DM440bn ($290bn) draft federal budget for 1997 that Mr Theo Waigel, the German finance minister, will present to his cabinet colleagues tomorrow envisages cuts in 18 out of 26 individual government spending plans.

It is, therefore, an important part of the government's "programme for more growth and jobs". This was unveiled at the end of April with the aim of slimming down expenditure by Germany's federal, state and local authorities, as well as by the social security funds that meet the costs of pensions, health care and unemployment.

The entire programme, which includes tax changes and deregulation in addition to spending cuts, is intended to make Germany more competitive in global markets.

Details provided by government sources in Bonn yesterday showed that Mr Waigel has succeeded in extracting the DM7bn of savings from his departmental colleagues which were envisaged in the programme in April. Some DM4bn alone will come from the ministries of economics, agriculture, transport and defence.

These departmental cuts will contribute to DM25bn of federal savings next year, once they have been added to DM9.5bn of savings to come from the federal labour office, a DM2.5bn cut in federal payments to the state pension funds, DM3bn of savings on personnel costs that will result from staff cuts and next year's modest civil service pay rise, and a DM3bn saving from a planned one year postponement of an increase in children's allowances.

Mr Waigel will tell the cabinet that the savings will come mainly from running costs, although federal investments are set to drop next year to DM60.5bn from an expected DM66.5bn this year and then hover around DM60bn in the period from 1998 to 2000 inclusive. The minister is expected to argue that the share of investment in overall spending next year will be in line with the average for the period between 1980 and 1995.

Investment in transport infrastructure will be largely maintained despite a 9.9 per cent drop in the federal transport ministry budget to DM45bn thanks to increased revenues in this area.

Mr Waigel will also promise to keep a high level of transfers to eastern Germany to finance infrastructure investment. However, total federal transfers to the new Länder (federal states) will drop by about DM9bn to DM80bn, largely because of reduced federal contributions to social payments such as unemployment pay.

The budget will set an important and overdue signal by cutting federal subsidies by 5 per cent next year, with aid for Germany's coal industry set to fall by DM500m to DM8.1bn. Help for farmers in coastal regions will be trimmed.

Emu bible guides German bankers

By Andrew Fisher in Frankfurt

Help is at hand for those German bankers still wondering how to make the arduous preparations for European monetary union. It comes in a 600-page book – as thick as the Frankfurt telephone directory – containing an awesome mass of detail about getting ready for the euro.

Drawn up by the German banking association, which represents 300 private sector banks, the book is intended to give the country's commercial banks a competitive lead over the rest of Europe. It demonstrates just how seriously German banks are taking Emu, which is due to start on January 1, 1999.

No other European Union country has come up with such a comprehensive tome, said Mr Wolfgang Arnold, deputy general manager of the association. But he thought the French banking community was also fairly well advanced in preparing for Emu.

"Germany will be ready," asserted Mr Hartmut Knüppel, a director of the association. "I can't say how the other countries will do. We want to help make our private banks stronger in this time of increasing competition."

The book, Guidelines for the Currency Changeover in Banks, has taken 18 months to prepare. It sets out the steps banks need to take in such areas as domestic and foreign payments, bank card transactions, accounting, retail business, money market, foreign exchange and securities settlements, and electronic banking.

Each chapter contains a detailed checklist which banks can use for their own preparations which will vary according to their size and type of business. They will have to be ready for dealings in euros from the start of Emu, although national currencies will circulate in parallel until mid-2002.

The book will be translated into English for foreign subsidiaries. Banking associations in other countries have also taken an interest. For association members, the loose-leaf book will cost nearly DM500 ($330). Outsiders will have to pay almost DM1,000.

While the big banks, led by Deutsche Bank, Dresdner Bank and Commerzbank, are well advanced in their Emu preparations, attention has turned to the problems of smaller banks. To prepare for Emu, banks will have to devote up to a quarter of their data processing capacity to the task, said Mr Hans-Ulrich Gutschmidt, another association director.

Thus, they will have to start making the necessary moves now. "They can only do it with this book," he added. "Or they will need considerably longer than two-and-a-half years."

Leader of the CGIL marks out territory as the critical conscience of the left

Italian unions fire warning shot on wages

By Robert Graham in Rome

Italy's powerful trade union movement is keeping its distance from the new centre-left government and has warned that it will take a tough line on wage increases.

This stance was spelled out at last week's congress in Rimini of the CGIL, the largest of the three main union confederations. The congress was the first presided over by Mr Sergio Cofferati, general secretary, who is seen as close to the Party of the Democratic Left (PDS), the main partner in the Olive Tree alliance which won the April general elections.

At the congress – from which he emerged with his authority considerably strengthened – Mr Cofferati confirmed he now sees his role as "the critical conscience" of the left in government. The unions do not wish to make the same mistake as those in Spain who they believe identified too closely with the Socialist government of Mr Felipe González, thus limiting their freedom of action.

In both his opening and closing addresses, Mr Cofferati made clear he would not accept the government's 2.5 per cent inflation target for 1997 as a benchmark for current wage negotiations or a broader incomes policy. This was despite a personal appearance by Mr Romano Prodi, the prime minister, at the congress.

Mr Cofferati was under pressure to adopt a tough stance partly because he faced a revolt by a hard core of the left inside the CGIL who support the Reconstructed Communism party. He was re-elected by 171 votes with seven abstentions and one against.

Mr Cofferati also faced the need to co-ordinate a congress position on the large number of sensitive wage contracts on which talks are under way or about to start.

Grass-roots CGIL members have been pressing for pay rises to recover lost purchasing power. The historic 1993 agreement between government unions and employers ending wage indexation pegged wage rises to productivity increases and to projected (not actual) inflation. Wages have grown on average over the past three years at 1 per cent below actual inflation.

The 1993 agreement is due for revision this year before another set of two-year contracts. Engineering workers, who have traditionally set the benchmark, are demanding at least a 3 per cent rise plus recovery of part of what they have lost in real terms. They argue that businesses have been able to make substantial profits since 1993 and have been allowed to raise production prices higher than necessary (and against the spirit of the 1993 agreement).

Another area of potential difference with the government is over privatisation proceeds. The CGIL wants to see a sizeable part of income from state asset sales earmarked for job creation. The Treasury has been channelling this income into a fund to amortise the national debt stock. The CGIL says it will press the government to come up with over L20,000bn ($13bn) to combat unemployment in the south, in part directed towards infrastructure projects.

Mr Cofferati, dubbed the sphynx because of his enigmatic smile, has proved an astute political operator while running the CGIL.

He helped to overturn the pension reform plans of Mr Silvio Berlusconi's government in November 1994 and exercised an effective veto on the economic policy of the subsequent government of Mr Lamberto Dini. He will now be the rallying point for those on the left who want to moderate the Prodi administration's plans to liberalise the economy and impose budgetary austerity.

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González acts to quell party rumblings

By Tom Burns in Madrid

Mr Felipe González, Spain's former prime minister, was yesterday forced to act to quell a revolt within the Socialist party, of which he has been undisputed leader for more than 20 years.

The Socialists' narrow defeat in the March 3 general election after a long stretch in power has prompted unprecedented calls for Mr González to step aside.

Senior party officials yesterday told a meeting in Madrid of the party's executive committee that criticism of the leader, let alone talk of replacing him, was not on the agenda.

The message followed a weekend circular from officials to all the party's regional associations warning against an internal debate and urging Socialists to concentrate on remaining united to oppose Mr José María Aznar's centre-right government.

Mr González's pre-emptive action underlines how seriously he is taking the critical voices beginning to be heard in senior ranks. His supporters are surprised at how quickly the gloves have come off among the normally well-disciplined Socialists.

After the general election, the party looked on its leader as its saviour. During the campaign a double-digit lead by Mr Aznar's Popular party had almost disappeared and Mr González, prime minister since 1982, was credited with having closed the gap.

But, since then, Mr Aznar, who has formed a parliamentary majority with nationalist parties, has been looking increasingly in charge. The Socialists, meanwhile, have looked more and more uncomfortable in the face of a series of sleaze allegations dating from their years in power.

The first broadside against Mr González was delivered last week by Mr Juan Carlos Ibarra, outspoken head of the regional government in Extremadura, a backward area of west Spain and a Socialist stronghold.

He wanted a party congress (which is held every three to four years and is not due before next March at the earliest) to be called as soon as possible in order to elect a new executive committee.

Mr José Borrell, a member of several of Mr González's governments and a man often tipped as a future party leader, urged the "regeneration" of the party and the call was quickly taken up less prominent Socialists around the country. Morale has been badly shaken by recent allegations of construction kickbacks received during the 1980s by local Socialist leaders in Andalucia, Mr González's home region, and by fresh scandals involving Swiss bank accounts held by senior Socialists in Navarre, in the north.

It was there that Mr Gabriel Urralburu, former head of the local Socialist-run government, was imprisoned last year in connection with corruption.

Mr González's executive last week suspended those accused of bribery from party membership pending investigation into the charges. There is growing concern among senior Socialists, however, that more sleaze allegations will surface now that the party is in opposition.

EUROPEAN NEWS DIGEST

Detention of Karadzic urged

Mr Robert Frowick, the US official in charge of overseeing Bosnia's forthcoming elections, yesterday urged Nato to arrest Mr Radovan Karadzic, the Bosnian Serb leader, and other members of his community who are wanted for war crimes.

Mr Frowick's call was a sign of the mounting dismay in Washington over the fact that Mr Karadzic is still at liberty and wielding considerable influence in the Serb-controlled half of Bosnia. The US State Department and National Security Agency are understood to have argued for swift action to apprehend Mr Karadzic, while Admiral Leighton Smith, the Nato commander on the ground, has counselled caution. Military experts believe a US commando operation, with no direct involvement by Nato's Implementation Force (Ifor), is under consideration.

Mr Frowick said Ifor – which has a mandate to arrest any suspected war criminals they "come across" – should act more firmly. "It seems appropriate ... for a decision to be made that would let Ifor move in to apprehend these people and bring them to trial," he said in Stockholm.

The British Foreign Office has invited senior diplomats from countries interested in Bosnia to a meeting tomorrow where various policy options, including renewed sanctions against the Serbs, will be considered. *Bruce Clark, London*

US banker's Russian ban ends

Mr Boris Jordan, the American banker who has been a dominant force in Russia's fledgling markets, has returned to Moscow after a brief exile which had sent a chill through the foreign investment community. Mr Jordan's visa was revoked in May without explanation, but many observers had speculated that it was part of a battle for control of one of Russia's main steel mills.

Mr Jordan returned to Russia last Friday, after receiving a visa the day after the country's presidential run-off. Nationalism was a main issue in the presidential battle and some analysts had seen Mr Jordan's visa problems as part of the tense political contest. Mr Jordan, a former CS First Boston banker who defected to set up his own business, said yesterday he was "grateful to the Russian government for clearing up this problem". *Chrystia Freeland, Moscow*

Prodi names new Rai board

The government of Italian prime minister Romano Prodi yesterday announced a new five-person board for Rai, the state broadcasting corporation, removing the direct influence of the political parties which have traditionally conditioned the state-run media.

The new board, the third in three years, comes at a time of upheaval in Italian television, with new rules pending on TV ownership and the use of satellite and cable television. It also follows a turbulent period under the 1994 government of Mr Silvio Berlusconi which was accused of packing the Rai management with its own appointees.

The members include three women and are: Mr Enzo Siciliano, one of the country's best-known literary critics; Ms Liliane Cavani, a prominent film director; Ms Fiorenza Mursia, who helps to run a family publishing house heavily involved in educational books; Ms Federica Olivares, a US-trained economist who has set up her own publishing house specialising in management books; and Mr Michele Scofiero, a constitutional law professor. *Robert Graham, Rome*

Romania toughens banks policy

Romania's central bank has cut its lifelines to two troubled banks and stripped a third of its licence in a dramatic toughening of policy. The central bank said it would no longer support the Transylvania-based Banca Dacia Felix or Romanian Creditbank. For the first time since banking was liberalised, the central bank also stripped Banca Fortuna of its licence, saying it had failed to establish its business.

"The financial situation of the two banks has deteriorated in recent weeks. Since mid-May they have been unable to make outstanding payments," the central bank said. It has so far pumped in about 1,000bn lei ($329m) to Dacia Felix which recently revealed a 1995 loss of 642.2bn lei – far higher than previously disclosed.

Dacia Felix has said it is owed more than $200m by companies associated with its former figurehead, Mr Sever Muresan.

Mr Muresan said yesterday that accusations of embezzlement made on state radio by the interior minister, Mr Doru Ioan Taracila, last Friday were without proof, and that he had not been give a chance to explain or defend himself. Over the past 18 months, the central bank has repeatedly stepped in to prop up troubled banks. *Reuter, Bucharest*

France Télécom reduces tariffs

France Télécom yesterday announced average cuts of 13 per cent in the price of national and international telephone calls – the second reduction since the start of the year.

The company said the decision had been taken for two reasons. First, because research had indicated that its subscribers would make more calls if they cost less; it was therefore "a real investment in growth". Second, as part of the process of making the company as competitive as possible in the run-up to the complete opening of the French telecoms market to competition in 1998.

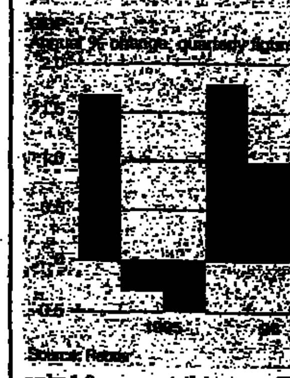
The state-controlled company, in which a minority stake is expected to be put up for sale early next year, said it thought prospective investors would welcome such moves to make its prices more competitive.

It said the cost of calls to 10 European countries would fall by up to 25 per cent. The 10 are: the UK, Germany, Andorra, Belgium, Spain and the Canaries, Italy, Liechtenstein, Luxembourg, the Netherlands and Switzerland.

Trade unions said the cuts would be of more benefit to companies than individual subscribers. *David Owen, Paris*

ECONOMIC WATCH

Slowdown in Belgian growth



Belgium's GDP rose 0.4 per cent in the first quarter of 1996 compared with the first quarter of 1995, and 1 per cent from the final quarter of 1995, according to the National Bank of Belgium. The quarter-on-quarter increase was broadly in line with expectations of a slowdown following the 1.8 per cent growth between the third and fourth quarters of 1995. The second quarter growth is expected to be stronger, following more optimistic business surveys from the central bank. But the bank still forecasts GDP growth of only 1.3 per cent this year. That could make it difficult for Belgium to meet its target of reducing the budget deficit this year to 3 per cent of GDP – one of the criteria for monetary union. *Neil Buckley, Brussels*

■ The EU's trade deficit with Japan fell to Ecu20.7bn ($25.7bn) in 1995 from Ecu21.5bn a year earlier, the Eurostat statistical service said. Exports rose 12.5 per cent to Ecu29.9bn from Ecu26.6bn, while imports were up 4.5 per cent to Ecu50.6bn from Ecu48.4bn.

■ Italy posted a global trade surplus of L4,474bn ($2.91bn) in April compared with a year-earlier surplus of L3,614bn.

■ French M3 money-supply grew 0.5 per cent in May after shrinking 0.9 per cent in April. The central bank said M3 grew 2.4 per cent year-on-year.

مكذا من الأصل

Russian bank put into administration

By Chrystia Freeland in Moscow

The Russian central bank yesterday took over one of the country's largest banks, provoking fears that the nation's fragile banking sector could be on the verge of a wider crisis.

Tveruniversalbank, ranked 17th in the country, will be under the administration of the central bank until September 1, when the authorities will review its position.

The former Soviet prime minister, Mr Nikolai Ryzhkov, a leading Communist politician, was a senior executive at the suspended bank and some analysts said the Communist defeat in last week's presidential election had been the last straw for the highly illiquid bank.

The central bank has pledged to protect Tveruniversal's depositors, who have some Rbs528bn ($103m) in the bank. The bank's assets are estimated at Rbs6,110bn.

Some 2,500 banks have sprouted up since the beginning of market reforms. But economic stabilisation has eaten into the easy money of the early years of reform, bringing down the sky-high rates of inflation which had nourished most of Russia's nascent banks.

Last week's re-election of President Boris Yeltsin dealt the banking sector a second blow, pushing down the stratospheric yields on government bonds which have been a main source of revenue this year.

"This could be a signal of the beginning of the banking crisis of which we have spoken for so long," said Mr Andrei Illarionov, director of the Institute for Economic Analysis, a Moscow think-tank. "In the new conditions of low inflation, government bonds were the only source of easy profits for banks. Yields have fallen sharply now, so the entire banking industry could face a major crisis."

But Russian money markets, which ground to a halt last August following a severe liquidity squeeze, reacted calmly to the news. Russian bankers said Tveruniversalbank's suspension, on its own, was unlikely to cause untolerable difficulties for the rest of the market.

"It is unpleasant because Tveruniversalbank is one of the biggest traders on the market," a senior Russian banker said. But he added that it was not one of the big six or eight banks which dominate the financial sector.

Mr Tom Reed, an analyst at Alliance-Menatep, said one factor which had pushed Tveruniversalbank over the edge was its heavy trading in *vekselya*, or promissory notes, issued by a dizzying array of Russian government and private institutions to ease the cash crunch that has depressed Russian industry.

Foreign investors and political leaders from east and central Europe yesterday welcomed the prospect of greater trade and investment with a more stable, democratic Russia at the first international investor conference since the re-election of Mr Boris Yeltsin as Russian president, writes Anthony Robinson in Salzburg.

"The election results mark a serious step forward and should create the stability which attracts foreign investors," Mr Yevgeny Yasin, the Russian economy minister, told a central and eastern European economic summit yesterday.

Lebed faces Chechnya challenge

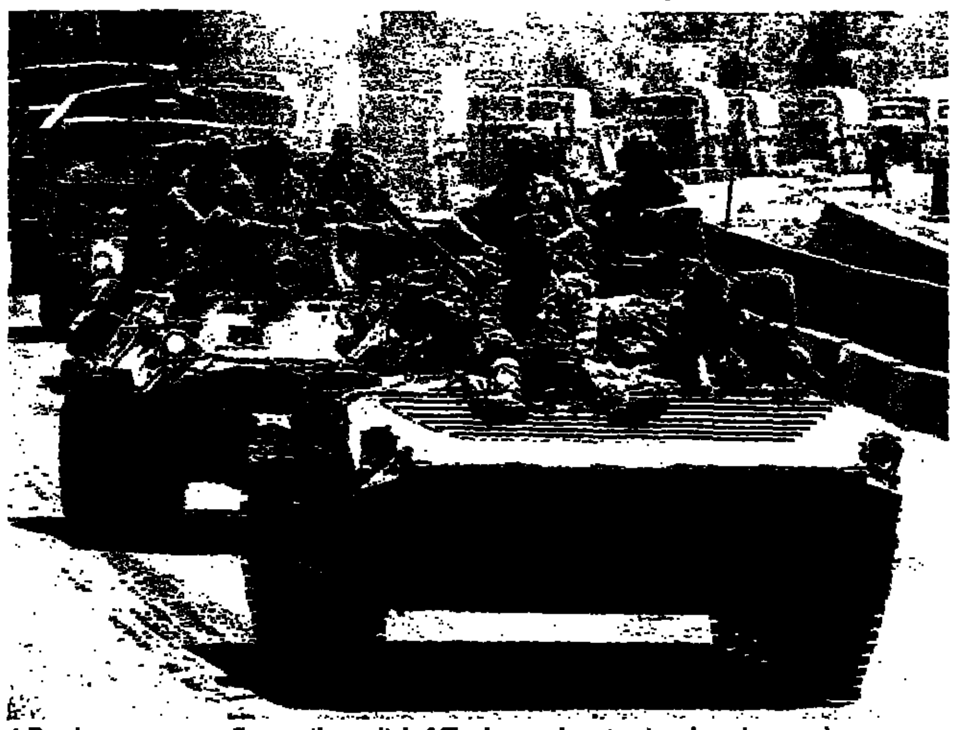
By Chrystia Freeland

Mr Alexander Lebed, Russia's new security chief, yesterday sought to consolidate his position in the Kremlin, holding meetings with the president and prime minister and winning preliminary presidential approval for an extention of his authority.

But Mr Lebed's efforts to turn his third-place showing in the first round of the Russian presidential poll into a powerful role in the administration of President Boris Yeltsin ran into stiff opposition from senior Russian generals.

The boldest rebuff came in Chechnya, where General Vyacheslav Tikhomirov, the Russian military commander in the break-away republic, issued a bellicose ultimatum to Chechen separatists.

At a press conference at the Khankala military base outside Grozny, the Chechen capital, Gen Tikhomirov gave them 24 hours to hand over all their Russian prisoners. If the Chechens, whose own fighters are imprisoned by the Russians, failed to meet the deadline, Gen Tikhomirov warned that "the joint forces command will take appropriate steps against the bandits and will move to destroy them".



A Russian convoy near Grozny, the capital of Chechnya, where tensions have increased AP

Gen Tikhomirov, who had earlier denied a report he was about to be transferred from Chechnya, was quoted by Itar-Tass news agency as saying separatist leader Mr Zelimkhan Yandarbiyev must make concrete proposals by today.

The number of prisoners held is unclear but some reports have put the figure at something over 1,000 on each side.

Gen Tikhomirov's threat has raised the tension in Chechnya higher than it has been at any time since Russian President Boris Yeltsin initiated peace talks in an effort to boost his chances for re-election earlier this year. The rebels signed a ceasefire with the Kremlin exactly four weeks ago.

Among its terms, the Russian army agreed to remove all its checkpoints around the region by last Sunday, and to withdraw all its troops by September 1. Both sides agreed to the prisoner exchange and the rebels undertook to "demilitarise" the province. But since the signing, each side has accused the other of bad faith and sporadic clashes have continued. Gen Tikhomirov's tough talk has also revealed deep rifts within the military and suggests that Mr Lebed will have to tread cautiously as he seeks to carve out a role for himself.

Gen Tikhomirov is seen as a member of the hawkish faction in the Ministry of Defence, which suffered a setback last month when four of Russia's most senior conservative officials were sacked from the government.

Although it is difficult to pigeonhole Mr Lebed's political philosophy – he veers from crudely nationalist comments to moderate, liberal views the retired general has been an outspoken critic of the Chechen war from the outset. Mr Lebed had said he would travel to the war-torn region this week in an effort to broker a deal.

Gen Tikhomirov's comments are expected complicate that mission.

The commander's aggressive stance has also underscored the rivalry and confusion which has beset the Russian military since the dismissal of defence minister Pavel Grachev last month.

Plan to save one of world's dirtiest towns

The one bit of good news for the environment in the heavily industrialised Azerbaijani city of Sumgait is the terrible news about its industry. Nearly every factory has had to close because of spiralling costs, a collapse of subsidies and the loss of once-captive Soviet markets.

For many who have suffered one of the most notorious environmental disasters in the former Soviet Union, this has delivered some relief, in spite of the loss of jobs.

And now a United Nations plan to resurrect Sumgait's economy brings hope of both jobs and cleaner air, but there are some formidable obstacles.

Sumgait, a city of 300,000 people about an hour's drive from Azerbaijan's capital, Baku, was set up before the second world war to take advantage of its proximity to Caspian Sea oil fields, producing petrochemicals, energy-intensive metallurgy and heavy equipment for the entire Soviet Union.

Dr Khalida Kuliyeva, the town's head paediatrician, has the unenviable task of recording the public health effects of Sumgait's factories.

> There are 5m tonnes of toxic waste in Sumgait. It is stored in unorganised dumps. In some cases it is simply tossed into the street

Her statistics, compiled from hospital records, show a nearly eightfold increase in the rate of children born with birth defects in the town between 1970 and 1990. The percentage of children born prematurely nearly doubled, and the premature babies' mortality rate more than tripled.

The numbers add up to disturbing anecdotal evidence. "Gassanova Shafa, 33 years old and a former worker in our aluminium factory, had five pregnancies. The first four ended in miscarriages. The fifth, her first live child, was born on March 26. It had a rupture in its skull and ruptures in its spine from which nerve tissue escaped. Its heart was deformed and its legs curved. It died within two days. She can no longer have children," Dr Kuliyeva said.

And clean air or not, 5m tonnes of toxic waste have already accumulated in the town, said Mr Mamed Mamedov, head of the Sumgait city ecology committee, a government agency. Pointing to a map, he said: "These red circles are unorganised dumps... the waste is simply tossed into the street."

Indeed, in the blasted clearings that border the now silent hulks of chemical factories, heaps of junk are strewn haphazardly. Unmarked barrels lie rusting. Youths graze sheep and goats among the weeds. Many residents say their one hope is to get out of Sumgait.

"Azerbaijan is my motherland, the motherland of my ancestors. But for them – the children – I must get out of here," said Mr Gamlet Nadzhafov, 61, who has already sent his wife to Russia.

"I want to sell the apartment, but the money I would get for it won't even cover our travel costs," he said.

The town hardly seems like a magnet for foreign investment. But that is precisely what the UN Development Programme and the Azerbaijani government have in mind with a plan for a "special economic zone". The 200-page plan, optimistically entitled "City of Tomorrow" and made public in a summary last week, calls for an infrastructure overhaul and big tax incentives and subsidies to attract investors.

The plan's leading backer, the UN's resident co-ordinator, Mr Paolo Lembo, said the goal was to "halt a situation that was deteriorating into a state of collapse and apocalypse".

Mr Lembo said that although few of the particulars of the plan had been spelled out, interest from overseas investors was already high. Hundreds of foreign companies have looked at the project, he says, including the Bank of Austria, Siemens and Kaiser Engineering, which is exploring the possibility of resurrecting Sumgait's aluminium plant.

Investors will be expected to replace dirty, money-losing Soviet technology with new, cleaner and more efficient production methods. They will also be obliged to contribute to an environmental clean-up fund. But such a tax will have to be kept low to avoid undoing the incentives that will lure them there in the first place.

That leaves open the question of who will pay the hundreds of millions of dollars which Mr Lembo admitted would be needed to clean the place up fully. Mr Lembo said he doubted Ms Kuliyeva's health statistics, but his report concedes that Sumgait has become "an unhealthy place to live".

Until something is done about that, any foreign companies opting to invest in the special economic zone may have to devise incentive schemes of their own, if they want to convince their managers to live in Sumgait.

Peter Graaff

NEWS: WORLD TRADE

Delta urges veto on BA-American link

By Michael Skapinker, Aerospace Correspondent

Delta Air Lines yesterday became the first large US carrier to call for the proposed alliance between British Airways and American Airlines to be vetoed.

Several US airlines, including United, Continental and TWA, have indicated they are prepared to see the deal go ahead if they are, in return, granted the right to fly to London's Heathrow airport.

But Delta said yesterday it accepted the UK government could not ensure increased Heathrow access for US carriers as the allocation of landing and take-off slots was governed by European Union law.

Mr Robert Coggin, Delta's executive vice-president, said: "The British government's argument that it has no power over Heathrow slots is absolutely correct. It's not their domain."

Mr Coggin said that in the absence of a new mechanism to allocate Heathrow slots, the BA-American deal should be stopped.

"This is a bad deal. It is not a partnership that's going to foster competition. It concentrates too many resources in the hands of the two carriers."

The only other large airline to express outright opposition to the alliance is Virgin Atlantic of the UK, with which Delta has a "code sharing" agreement, allowing the carriers to sell seats on each other's flights.

Mr Richard Branson, Virgin's chairman, was in Washington last month arguing against the deal.

In addition to its arrangement with Virgin, Delta has an alliance with Swissair, Austrian Airlines and Sabena of Belgium.

But Mr Coggin said these alliances accounted for far smaller shares of the market than the BA-American deal, which will control 60 per cent of UK-US flights. Negotiators from the UK and the US are to continue talks in London next week in an attempt to conclude an "open skies" deal which would allow the BA-American deal to go ahead.

However, officials say the two sides are still far apart on the Heathrow slots issue.

The UK has said in negotiations so far that US carriers could gain access to Heathrow under EU regulations requiring half of new slots to be given to new entrants.

The US has said this is insufficient, and is pressing for the UK to find a way of guaranteeing access to its airlines.

'National' car plan presses on in Indonesia

By Manuela Saragosa in Jakarta

Indonesia plans to deliver models of its "national" car to buyers in October, defying international criticism of the controversial car policy, which puts established investors in the country's automotive sector at a disadvantage.

Under Indonesia's national car policy Timor Putra Nasional, a company controlled by Mr Hutomo Mandala Putra, President Suharto's youngest son, has been awarded large tax and tariff breaks to produce the Timor – a 1,500cc sedan manufactured in co-operation with Kia Motors of South Korea.

The US, Europe and Japan have said the policy breaches tenets of the World Trade Organisation.

Mr Hutomo, who unveiled a prototype of the car yesterday, said Indonesia's national car programme "cannot be stopped". Some 60 Timor cars – made in South Korea and resembling Kia's Sephia sedan – have been imported and will go on display in Jakarta over the next few months before deliveries start in October.

Timor Putra Nasional has been given permission to import 49,000 built-up Timor cars tax and duty free from South Korea until June next year, provided Indonesian workers are involved in their production and the cars use a certain amount of components made in Indonesia.

Mr Hutomo said the Timor will sell for Rp35m ($15,000), about half the price of other sedan models in Indonesia. Timor Putra Nasional plans to assemble Timor cars in Indonesia in March next year.

The unveiling of the Timor was timed to pre-empt the launch of another national car, which is being manufactured by a company controlled by Mr Bambang Trihatmodjo, Mr Hutomo's older brother. Mr Bambang's national car, however, has not been awarded any tax and tariff breaks.

Citra Mobil Nasional, a subsidiary of Mr Bambang's listed holding company Bimantara, is due to launch two versions of its national car, manufactured in co-operation with Hyundai Motors of South Korea, on July 23.

Mr Bambang has held discussions with Mr Tunky Ariwibowo, minister of trade and industry, over the past few months to push for tax and tariff breaks similar to those awarded to his brother. But the minister has been reluctant to award "pioneer" status to another car manufacturer.

Nevertheless officials at Mr Bambang's company are optimistic. Talks were going on and it was "just a matter of time" before the company got tax and tariff breaks, said Mr Jongky Sugiarto, Citra Mobil Nasional's president director.

US cool on WTO chief's plan for trade help to poor nations

By Guy de Jonquières

Renato Ruggiero: WTO head wants to help 48 poor nations through trade concessions

The US has expressed strong reservations about a proposal by Mr Renato Ruggiero, head of the World Trade Organisation, that industrialised nations and advanced developing economies agree on trade concessions to help the world's poorest countries.

Although Washington has not said outright that it will oppose the scheme, it has told Mr Ruggiero it is unenthusiastic about it and would have difficulty securing the legislation needed to put it into effect.

The negative US response is a setback for Mr Ruggiero only 10 days after he unveiled his initiative at the Lyons summit of the world's leading industrialised countries.

He had hoped to win backing for it at the WTO's ministerial conference in Singapore in December.

Mr Ruggiero has proposed that the WTO's richer members commit themselves to abolishing tariffs and non-tariff barriers on a range of exports from the 48 poorest countries, as part of an effort to prevent them being marginalised in the global economy.

However, the US has said that to participate it would need to obtain fresh legislative authority from Congress, which would be difficult in an election year.

It is not satisfied that enough advanced developing countries would be ready to contribute to such a scheme, or that it would genuinely help the poorest economies.

Washington also says the proposal could create problems because at least two of the potential beneficiaries, Bangladesh and Kenya, are sizeable textiles exporters.

Special actions to remove barriers to their exports would require amendment of US plans for complying with a WTO agreement to liberalise trade in textiles, a timetable for which has been submitted to Congress.

Although the European Union broadly supports Mr Ruggiero's initiative, it seems unlikely that it could go ahead without US support.

Backing for global chips forum

By Neil Buckley in Brussels

The European Commission and Japan yesterday reached an understanding that a bilateral US-Japan pact on semiconductors should be replaced with a global inter-governmental forum.

This came as the US and Japan prepared to resume talks on renegotiating their existing bilateral agreement which expires at the end of this month. Europe argues that its chip manufacturers have been at a disadvantage because of the US-Japan accords on semiconductors.

Mr Peter Carl, the European Union's chief negotiator, met officials of Japan's Ministry of International Trade and Industry in Toyko yesterday following talks between the Commission and Japan at the Group of Seven summit of leading economic nations in Lyons.

Mr Carl said the two sides agreed that inter-governmental co-operation should be on a multilateral, not bilateral basis. They called for creation of a "Global Governmental Forum" to promote free trade in semiconductors and for exchange of information and discussion of government policies.

The forum would initially comprise Japan, the US and the EU but would be open to other members. The touchstone of its operation would be respect for market principles – with markets, not governments, to determine market share – and consistency with World Trade Organisation rules.

A sticking point may still be Japan's insistence that the EU remove tariffs before any agreement can be signed. The Commission says it would be prepared to discuss lowering tariffs as part of an agreement, but does not accept removal of tariffs as a precondition.

The US has been pressing Tokyo to conclude a new "transitional" bilateral semiconductor accord when the existing deal expires on July 31. But Japanese trade officials have argued that the bilateral arrangement is no longer needed now foreign chip manufacturers have gained more than a 30 per cent share of Japan's microchip market.

Mr Carl said European chip producers only had a 1.5 per cent share of Japan's market, due to "pressure on Japanese buyers of foreign semiconductors to purchase American-made semiconductors".

WORLD TRADE NEWS DIGEST

Microsoft to sue Argentine state

Microsoft's Argentine unit yesterday said it planned to sue the Argentine government at all levels for allegedly using pirated software.

"Ninety per cent of the public administration, at national, provincial and council level, uses illegal software," according to Mr Federico Gagliardo, a local Microsoft manager who made his statement to the Clarin newspaper.

"State-sector fraud costs software producers $60m a year. And we are going to take cases to court," he said.

Mr Gagliardo said his company has already taken the government of Mendoza province to court for $4m, accusing it of using illegal software on 4,500 of its 6,500 computers. He estimated that, including companies using pirated software, the lost sales total $195m a year – depriving the government of value added tax revenues. *Reuter, Buenos Aires*

Fujian delegates visit Taiwan

A trade delegation from the Fujian province in China arrived in Taiwan yesterday to promote investment in the province, which faces the island across the Taiwan Strait.

During the 10-day visit Mr Chen Zidong, director of Fujian's Taiwan affairs office, will meet officials of Taiwanese companies with investments in the province. The seven-member delegation will also visit the ports of Taichung and Kaohsiung, which the Taiwanese government has designated to handle trade across the Taiwan Strait.

Taiwan has banned direct trade, transport and communications with China, but last year approved the trans-shipment of goods from third countries to Chinese ports via Kaohsiung.

Expectation that the ban will be dropped altogether has risen with the approach of Hong Kong's return to Chinese sovereignty next year. Most of Taiwan's trade with China is routed through the British colony.

Taiwan has relaxed restrictions on visits by Chinese officials in an effort to increase contact. *AP, Taipei*

■ The US and Japan will hold talks this week over claims by Washington that US producers face unfair barriers in the multi-billion dollar Japanese photo film market, officials from both sides said yesterday.

The talks will be held in Geneva from tomorrow until Thursday. They are the first step in the dispute settlement procedure of the World Trade Organisation, to which the US decided last month to take the case.

Tokyo is considering whether to make a counter case against the US, also at the WTO. *Foreign Staff, London*

■ Bell Canada International, 100 per cent owned by BCE, Canada's largest telecommunications group, is expanding its agreement with China United Telecommunications for a cellular network in Yantai, the main city in the Shandong province, to the cities of Jinan, Weisang and Zhibo. The combined Shandong network will serve 25m people and will later be extended to other cities. Shandong has a total population of 87m. *Robert Gibbens, Montreal*

■ Wideroe of Norway, a Bombardier customer for 40 years, is the first European airline to place a firm order for the new 70-passenger 8-400 turbo prop, for delivery in late 1999. Together with two used 8-100 and 8-300, both smaller models, Wideroe's order is worth $40m. Wideroe will have 21 8-series aircraft by the end of the year. *Robert Gibbens*

■ Exbud, the Polish construction company, has signed an 18.5m zloty ($6.8m) contract to build the first phase of a wholesale supermarket for Makro, the Dutch cash and carry supermarket chain. The building will be constructed in Lublin, south-east Poland. *Christopher Bobinski, Warsaw*

NEWS: INTERNATIONAL

US irked by Netanyahu cabinet move

By Julian Ozanne in Jerusalem

Mr Benjamin Netanyahu, Israeli prime minister, formally appointed Mr Ariel Sharon, the ultra-nationalist former general, to his cabinet yesterday hours before he left Israel for his first official visit to the US as prime minister.

Mr Sharon's appointment, which was approved by parliament yesterday, will anger Arabs and concern US officials who believe his powerful role in the government in the ministry of national infrastructure will further harm the fragile Middle East peace process.

In Washington Mr Netanyahu will come under pressure to explain to US President Bill Clinton and administration officials how he intends to pursue the paralysed peace process which the US has underwritten both diplomatically and economically.

Mr Netanyahu, who would much rather discuss his government's plans for sweeping reforms of the economy, is expected to outline a vision of a much slowed down peace process with a de facto freeze on negotiations with Syria and creeping, highly limited movement with Palestinians.

He will argue that the principle of land for peace, enshrined in United Nations resolutions, the foundation stone for peace efforts in the region, is not acceptable to his government.

He is expected to tell Washington that there are few prospects for a resumption of peace talks with Syria over return of the Israeli-occupied Golan Heights as long as Syria continues indirectly to back attacks against Israel by pro-Iranian guerrillas in Lebanon. On peace with the Palestinians he is likely to reiterate his government's opposition to the establishment of a Palestinian state or the transfer of any more land from Israel to Palestinian control in the West Bank and Gaza Strip.

Instead he will outline his vision of limited autonomy for the Palestinians backed by greater access to the Israeli economy in return for the Palestinian Authority disarming Islamist guerrillas and further clamping down on terrorism.

He will also slightly soften his stand towards meeting Palestinian President Yassir Arafat, at some future point, and unveil plans to ease Israel's blockade of Palestinian areas. But he will not outline his government's intentions on the long delayed promise to withdraw troops from the still Israeli occupied West Bank town of Hebron, a flashpoint of Arab-Jewish violence.

Mr Netanyahu's position is unlikely to satisfy the Clinton administration but the US president will be cautious in criticising the new prime minister ahead of US elections, on which the US Jewish lobby could have an impact. While in the US Mr Netanyahu will also meet members of Congress, leaders of the Jewish community and investment bankers in Wall Street.

Unity of apartheid's foes under strain

As President Nelson Mandela begins his first state visit to Britain today, investors who have long been wary of the historic alliance between his African National Congress and South Africa's trade unions are now wondering whether the ties are strong enough.

The week-old "wild cat" strike at Anglo American's Rustenburg Platinum Mine, the world's largest platinum producer, is a reminder that undisciplined action can be more of a problem than a strong union movement, which condemned the unofficial action.

Now the ANC government's recently released economic policy threatens to undermine both the influence and the self-esteem of the Congress of South African Trade Unions (Cosatu), the country's largest labour federation.

If Cosatu condones the austerity measures at the core of the government's strategy for growth document, such loyalty to the ANC could exact a heavy toll on the unions' influence beyond the ranks of their 1.4m membership, a minority of the workforce.

The fiscal targets announced on June 14 by Mr Trevor Manuel, finance minister, embrace the orthodoxies of the World Bank and the International Monetary Fund with considerable fervour. In so doing, the government has largely rejected Cosatu's calls for more public spending, higher corporate tax rates and the maintenance of exchange controls. Instead, the government plans to reduce the budget deficit to 3 per cent of gross domestic project by 2000, from 5.2 per cent this year.

The week-old stoppage at Rustenburg has united Amplats and the National Union of Mineworkers in condemning the strike by about 21,000 non-unionised workers. But to little avail. Their demand, that the company repay their tax and national insurance contributions, has cost Amplats R100m ($23m) and prompted the dismissal of the entire workforce of 28,000, including a large number of NUM members.

Amplats, which said it was willing to re-hire employees who agreed to return to work, said yesterday more than 3,000 had applied.

"Wild cat strikes are inimical to the whole structure of industrial relations that the government has tried to build. They are becoming more and more rare," says Mr Stephan Malherbe, a policy analyst at Anglo American.

For all that, consensus between business and labour remains elusive. A recent survey by Andrew Levy and Associates, a Johannesburg based labour consultancy, found the number of "man-days" lost through strike action in the year to date has increased fourfold to 400,000 since last year's record low. It predicts the rising trend will continue as euphoria in the wake of the all-race election of 1994 gives way to more material demands.

"The fundamental question is whether, given the history that we have, there can be a social partnership between business, labour and the government at all," says Mr Jayandra Naidoo, executive director of the National Economic Development and Labour Council, a tripartite policy forum for business, unions and the government.

Mr Manuel's argument is that austerity now will be rewarded with 1.35m new jobs and a fivefold increase in foreign direct investment to $800bn a year by 2000. The unions have postponed their verdict on this "No pain, no gain" formula until later this month – which gives politicians time to lobby its historical allies in the anti-apartheid movement.

"We are no longer second-guessing what the position of the government is. The fact that we don't agree does not mean we have to throw our hands up in the air and abandon our alliance with the ANC," says Mr Sam Shilowa, Cosatu leader.

Many businessmen will agree. Reassured by the promise of tax incentives for investors, further trade liberalisation and steps towards the abolition of exchange controls, business leaders are keen to placate labour.

In his annual statement released last month, Mr Julian Ogilvie Thompson, Anglo American chairman, held out an olive branch to his union critics. Business had successfully lobbied the policy-makers, he said, but its contributions to the economic policy debate had been "too prescriptive" and paid "too little attention to development issues". The comment may be scant consolation for the unions, but it would have been inconceivable a month ago.

Industrial relations will be critical to investor confidence, which is currently at a low ebb. Despite the fact that South Africa has an 18 per cent weighting in the International Finance Corporation's emerging markets index, foreign fund managers have limited their exposure to South African equities to an average 4 per cent of emerging market portfolios. And foreign direct investment has so far been disappointing.

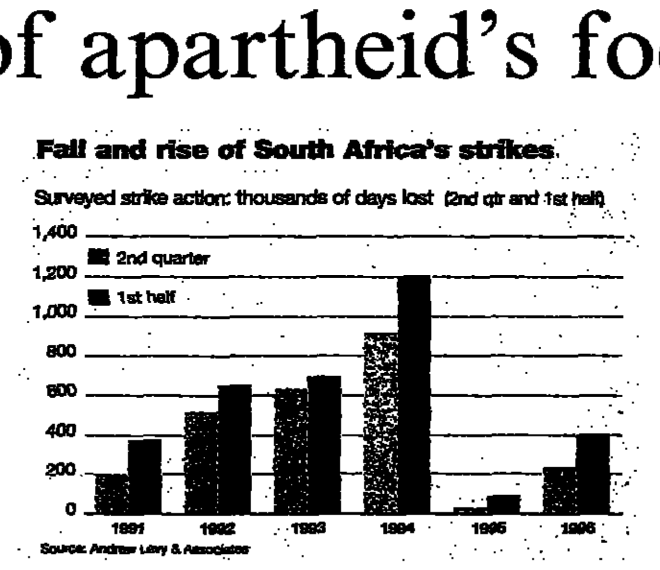
The government's shift in the direction of favouring a policy of privatisation, signalled in statements made by Mr Mandela after his visit to Germany and in the growth strategy document, may prove an even more divisive issue as far as the unions are concerned. Levy and Associates predict "the stage is set for a showdown".

Privatisation is not a word Mr Manuel will use in public, preferring euphemisms about the "restructuring" of state assets.

But he is adamant that his fiscal targets, which for the first time include revenue from the sale of minority equity stakes in state-owned corporations, are "not up for negotiation".

Mark Ashurst

Fall and rise of South Africa's strikes



Source: Andrew Levy & Associates

Early use of new Aids drugs urged

The latest drugs for Aids and HIV infections should be given much earlier in the course of the disease, said Mr Scott Hammer, opening the first main session of the Eleventh International Aids Conference in Vancouver, Canada, yesterday, writes Daniel Green in Vancouver.

Mr Hammer, associate professor of medicine at the Harvard Medical School, Boston, said even moderately potent combinations of drugs led to a 45 per cent reduction in the risk of death in patients not yet seriously ill with Aids.

This is in contrast with trials of older drugs which suggested there was no benefit from early prescribing.

Latest treatments, on the market since the start of 1996, held out the promise of eliminating the virus from the body entirely. Previously, measurement of success was in slowing down the disease's progress.

Other research presented at the conference showed that in trials lasting up to 48 weeks, it was possible virtually to eliminate the HIV from the bloodstream in between 40 per cent and 90 per cent of patients.

But the optimism of researchers and drugs companies was tempered by accusations of hyperbole by Aids activists. They also accused Merck and Abbott Laboratories of the US and Switzerland's Roche of profiteering.

The companies recently launched drugs which formed the basis of the promising results. But the results are obtained only when several drugs – usually three – are taken together, the cost estimated at up to $13,000 a year.

Dr Brian Gazzard of the Chelsea and Westminster Hospital, London, said his hospital's drugs bill for Aids/HIV would rise from £250,000 ($390,000) a year to up to £9m if combination treatments were used exclusively. The annual cost per life saved with combination treatment was £4,000-£5,000 per patient.

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International Court of Justice finding will put pressure on world powers

Use or threat of nuclear arms 'unlawful'

By Gordon Cramb in The Hague

The use or threat of nuclear arms was unlawful under most circumstances, the International Court of Justice said yesterday in a finding which delighted disarmament campaigners and put pressure on the main world powers to step up efforts aimed at curtailing the weaponry.

The World Court's keenly awaited "advisory opinion," although carrying no legal force, was sought by the United Nations General Assembly at the end of 1994, and the outcome will be used by countries seeking to re-start Geneva talks on a Comprehensive Test Ban Treaty.

CTBT negotiations stalled last month after China, along with Russia, insisted that so-called threshold nuclear powers – India, Pakistan and Israel – ratify the treaty before its provisions became binding on the five declared nuclear powers which comprise the permanent members of the UN Security Council – the US, Britain, France, Russia and China.

This followed a refusal by New Delhi to renounce tests unless the five signed up to a timetable for complete nuclear disarmament.

The UK Foreign Office said last night that the court's opinion was complex and required careful study. France has continually questioned the competence of the court in the issue.

The 14 judges of the World Court, the UN's judicial branch which sits in The Hague, first found unanimously that "a threat or use of force by means of nuclear weapons. . . is unlawful" if it contravenes stipulations in the UN charter which protect territorial integrity and political independence.

Then they reached a less clear-cut interpretation on the firing of atomic warheads under other circumstances. After a seven-seven split, the casting vote of Mr Mohammed Bedjaoui, the Algerian presiding judge, carried a recommendation that "the threat or use of nuclear weapons would generally be contrary to the rules of international law applicable in armed conflict, and in particular the principles and rules of humanitarian law".

The court went on to say that it "cannot conclude definitively whether the threat or use of nuclear weapons would be lawful or unlawful in an extreme circumstance of self-defence, in which the very survival of a state would be at stake".

Finding will be used by countries seeking to re-start Geneva talks on a Comprehensive Test Ban Treaty

However, anti-nuclear activists pointed out that the division came because three judges wanted to go further in circumscribing the nuclear deterrent. Mr Peter Weiss of the International Association of Lawyers Against Nuclear Arms said: "It is really 10-4 for illegality.

"The only exception is an extreme case, and in that case use might be illegal. That is totally different from the position of nuclear weapon states, which put forward deterrence as a tool against anything they want to deter."

In another part of its finding, the court said with unanimity that "there exists an obligation to pursue in good faith and bring to a conclusion negotiations leading to nuclear disarmament in all its aspects under strict and effective international control".

US Senate heads for minimum wage vote

By Jurek Martin in Washington

The US Senate yesterday headed towards a vote on the issue that has tied up Congress for weeks – the first increase in the federal minimum wage since 1989 – and along battle lines that mirror the House action at the end of May.

A crucial vote could come as early as today, with the main division not on raising basic pay from $4.25 an hour to $5.15, which will probably pass, but on an amendment exempting small businesses from having to comply.

President Bill Clinton has warned repeatedly that he will accept only a "clean," unconditional increase in the minimum wage and will veto any "poison pill" rider intended to mitigate its effect.

Organised labour and business associations have been lobbying furiously on the minimum wage, with each side targeting senators from both parties still uncommitted on the small business exemption.

As drafted by Senator Christopher Bond, the Republican from Missouri, the amendment would free all businesses with less than $500,000 in annual sales from having to pay the higher minimum, would permit them to pay new workers the old scale and delay the effective date of the overall increase until the start of next year.

The Clinton administration and congressional Democrats claim that this would render virtually academic any increase in the minimum wage and thus deny a necessary boost to the pockets of at least 10m working Americans.

While he was Senate majority leader, Mr Bob Dole, now the presumed Republican presidential nominee, blocked a floor vote. But his departure for the full-time campaign trail and votes in the House approving the minimum wage increase and rejecting the small business exemption changed the political calculus.

Senator Trent Lott, Mr Dole's successor, and Senator Tom Daschle, the minority leader, quickly agreed to schedule a division in the week after the Independence Day break.

The House votes in May were notable for the number of moderate and freshmen Republicans, all up for re-election, who broke with party orthodoxy to back the increase.

The Senate is usually the more unpredictable chamber. This time, with only one third of its seats up for grabs in the November polls and with over half that number retiring, neither side is confident of victory on the Bond amendment.

Broadly speaking, the minimum wage debate has cut in favour of the Democrats, according to public opinion polls which have shown majorities as high as 80 per cent in favour of an increase. This explains Mr Dole's reluctance to risk defeat in a vote.

But now that he has distanced himself from Congress the potential damage to his presidential ambitions has probably also declined.

Former Clinton colleague seeks to lead Perot ticket

By Jurek Martin in Washington

Mr Richard Lamm, the former Democratic governor of Colorado, is expected to announce today that he is willing to become the presidential candidate of the new Reform party set up by Mr Ross Perot.

His bid, if nothing else, should have the effect of forcing Mr Perot, the 1992 independent candidate, to declare his intentions before the Reform party holds its two-city, two-part nominating convention in California and Pennsylvania next month.

It may also concern President Bill Clinton's re-election campaign as Mr Lamm could increase the Reform party's appeal to Democrats either as a candidate or as an active supporter of Mr Perot. His name, with Mr Perot's, is already on a preference questionnaire sent to 1.3m party members.

Mr Lamm, Colorado governor from 1975-87 and a former close associate of Mr Clinton, switched to the Reform party last month, after a successful address in which he lamented the Democratic party's inability to adapt its New Deal social programmes to modern needs.

Once a classic if iconoclastic liberal Democrat, Mr Lamm now subscribes to most, if not all, of Mr Perot's cardinal points, ranging from reforms of the social safety net to the balanced budget. Mr Lamm's most recent crusade – for a moratorium on all immigration, legal and illegal – may not correspond with the Texas billionaire's views.

Opinion poll evidence suggests the Reform party will do less well this year than Mr Perot did as an independent in 1992, when he pulled in 19 per cent of the popular vote. But in big states, not least California and his native Texas, even 10-15 per cent could tip the balance in the favour of Mr Clinton or Mr Bob Dole, the presumed Republican nominee.

The great unknown is what Mr Perot will do. Before Mr Lamm came on board, Mr Perot's substantial ego had deterred other politicians disaffected with politics-as-usual from joining his cause. Even if he steps aside in favour of Mr Lamm it is doubtful that the party's official candidate would be given much rope. Last month the Federal Election Commission ruled that the Reform party would be entitled to about $30m in federal matching funds this year if Mr Perot was its nominee.

Sarita Kendall on an unpredictable president-elect

Ecuador's populist choice seeks to reassure business

TEARS OF JOY: Abdalá Bucaram, left, celebrates news of his victory with son Jacobo Reuters

Mr Abdalá Bucaram has often said that Ecuador will sink or swim with him as president. The voters who gave him an 8 *percentage point victory over* the market-oriented Social Christian candidate, Mr Jaime Nebot, in Sunday's run-off election clearly believed the risk worth taking. Now, the 44-year-old populist has to try to meet *the enormous expectations* he stirred up during his theatrical *electoral campaign*.

Mr Bucaram's first statements as president-elect were designed to reassure, particularly the private sector, the military and the establishment he has attacked so furiously.

His personal and political unpredictability has created a *concern in business circles* that will be difficult to dispel. Referring to the country's economic management, Mr Bucaram said on Sunday: "The financial sectors should not worry, I shall maintain the present scheme without major changes."

Nonetheless, prices of Ecuador's Brady bonds – the country's most widely traded asset – fell 5 per cent in London in reaction to his victory. The Ecuadorean currency, the sucre, also slipped.

Mr Bucaram named his Roldosista party after his brother-in-law, Mr Jaime Roldos, Ecuador's first civilian president after the military regime of the 1970s. An athlete *and lawyer, Mr Bucaram* started his political career in the Roldos government, but Mr Roldos was killed in an aircraft crash after governing for less than two years.

Mr Bucaram, whose grandparents emigrated from Lebanon, is set to be South America's second leader of Arab extraction, after President Carlos Menem of Argentina. His career includes a short, stormy period as mayor of Guayaquil, and then, after he was accused of fraud, voluntary exile in Panama.

With less than a third of the seats in Congress, his party *will have to forge a coalition to* govern. Mr Bucaram has already made pacts with some of the smaller parties and plans talks with a centre-left grouping of Christian Democrats, Social Democrats and indigenous representatives.

However, Mr Raúl Baca, a *leader of this parliamentary* grouping, said he sees the centre-left bloc as "a balancing source" which would seek solutions to the country's economic and social problems, but could not provide unconditional backing for a Bucaram government. He said there could be a joint strategy to fight corruption, a hot issue in Ecuador.

One of Mr Bucaram's advantages – unexpected because *nearly all the three election* surveys and exit polls forecast his defeat – is the fact that he not only won by a significant national margin, but he also took all the provinces except his own, Guayas.

"This is a vote of desperation, a vote by the poverty stricken," said centre-left candidate Mr Freddie Ehlers, who was pushed into third place by Mr Bucaram in the first round of the presidential election.

Throughout his campaign Mr Bucaram used his emotional, charismatic showmanship to galvanise the poor. *He was* evasive on economic policy but *strong on social themes*, with proposals for housing, education and health.

Ms Rosalia Arteaga, vice president elect and the first woman to reach this post, will have special responsibility for social questions. She is a former education minister.

After the election Mr Bucaram reaffirmed his commitment to governing for the poor, saying that he felt "a greater responsibility for human beings than for statistics". However, he also promised "extraordinary" opportunities for investors and invited businessmen for discussions. "We are going to produce and to compete."

President Sixto Durán Ballén's *outgoing government* has made some progress towards liberalising and modernising the economy in the last four years and has brought annual inflation under 24 per cent. International reserves are over $1.5bn, the trade surplus increased in the first months of 1996 and the budget deficit officially stands at about 1 per cent of GDP, though a number of experts question this figure.

Although privatisation has been a constant issue during this administration, little has been achieved. Referring to the *important oil sector during the* campaign, Mr Bucaram said he *wanted "capitalisation" by* investors not privatisation. He also pledged to bring down interest rates, redefine the role of the banks, and renegotiate Ecuador's foreign debt.

One priority is to reactivate *GDP growth*, which sank to 2.3 per cent last year and is *unlikely to be much higher* than this, but again his proposals *have* been less than specific.

Between now and August 10, when he takes over, Mr Bucaram will be working to gain the support of centre-left politicians and businessmen. He said he hoped the present foreign minister, Mr Dalo *Leoro*, would stay on to provide continuity in talks with Peru, with which Ecuador fought a brief border war last year.

"Ecuador needs consensus and dialogue," said Mr Bucaram. Admitting to feeling exhausted after the long campaign, he nevertheless promised to start immediately on the process of coalition building.

Clinton in dilemma over Cuba hijack

By Pascal Fletcher in Havana

A Cuban military officer has hijacked a Cuban commercial aircraft to the US navy base at Guantanamo Bay in the east of the island, posing an awkward problem for Washington.

According to US officials, a lone Cuban gunman, identified as Lt Col José Fernandez Pupo, forced the aircraft to land at the base on Sunday and asked for asylum in the US.

Under a bilateral immigration accord agreed on May 2 last year between Havana and Washington, Cubans who try to immigrate illegally to the US by sea or to the Guantanamo Bay base are to be returned to Cuba.

Mr Ricardo Alarcon, a member of the Cuban politburo, said the incident was a clear violation of international anti-hijacking agreements. It would also violate the bilateral immigration accord if the asylum seeker was not returned, he said. US officials made clear they were treating the incident as a hijacking.

The incident comes as President Bill Clinton is considering whether to enforce implementation of the most controversial part of a new law tightening US economic sanctions against Cuba.

Mr Clinton must decide before July 16 whether to delay enforcement of a provision of the Helms-Burton law allowing US claimants of nationalised Cuban properties to sue any foreign company judged to be "trafficking" in these properties in Cuba.

Republican backers of the law, as well as sectors of the big Cuban exile community in Miami, have been pressing Mr Clinton not to exercise a waiver to delay this provision of the law for six months.

The armed hijacking is also potentially embarrassing for the US because it has been lobbying the United Nations Security Council to condemn Cuba over the shooting down last February 24 by Cuban fighters of two US-registered small aircraft crewed by Cuban exiles.

AMERICAN NEWS DIGEST

Hurricane Bertha strikes Caribbean

Hurricane Bertha, with gusts of up to 100mph, hit the US Virgin Islands yesterday, peeling off roofs, sending trees flying and causing minor damage in a violent downpour of wind-lashed rain.

It also struck the tiny Leeward islands with sustained winds of 85 mph at dawn, then swiftly pushed across the US and British Virgin Islands. By yesterday afternoon, it was expected to hit Puerto Rico. First reports indicated that there was no major damage from the first Atlantic hurricane of the season, but emergency shelters were opened, airports closed and electrical power turned off as a precaution on islands throughout the eastern Caribbean. *Reuter, St. Thomas*

Peru navy in cocaine scandal

Peru's armed forces have been hit by a drugs-peddling scandal after two naval vessels were discovered to be carrying consignments of cocaine.

The ships were discovered within 48 hours of each other last week. The first, the cargo vessel Matarani, was boarded in Vancouver on July 3 after a tip-off. Some 45kg of high-quality cocaine were found and two crew members arrested.

The Peruvian naval high command ordered an immediate search of all its ships.

Two days later, another consignment, this time of 17kg, was discovered on board the Ilo, lying off Lima's port of Callao. The ship, which rarely goes to sea, is thought to have been used as a temporary warehouse for drugs awaiting transhipment. The captain and 38 crew were put under detention.

Criminal drugs organisations are believed to have stepped up their infiltration of the armed forces since airspace in northern Peru, the traditional route for export of cocaine to Colombia, is now relatively well controlled by US-supplied radar. New drugs routes out of Peru rely increasingly on land, sea and river transportation. *Sally Bowen, Lima*

Clinton in fresh video testimony

President Bill Clinton has offered his second videotaped testimony for a Whitewater trial in 10 weeks. Mr Clinton testified for two hours and 20 minutes on Sunday in the case of Arkansas bankers Mr Herby Branscum Jr and Mr Robert M. Hill. They are accused of illegally using bank funds to reimburse themselves for contributions to political candidates, including Mr Clinton in 1990 when he ran for governor, and in 1991 when he considered seeking the presidency.

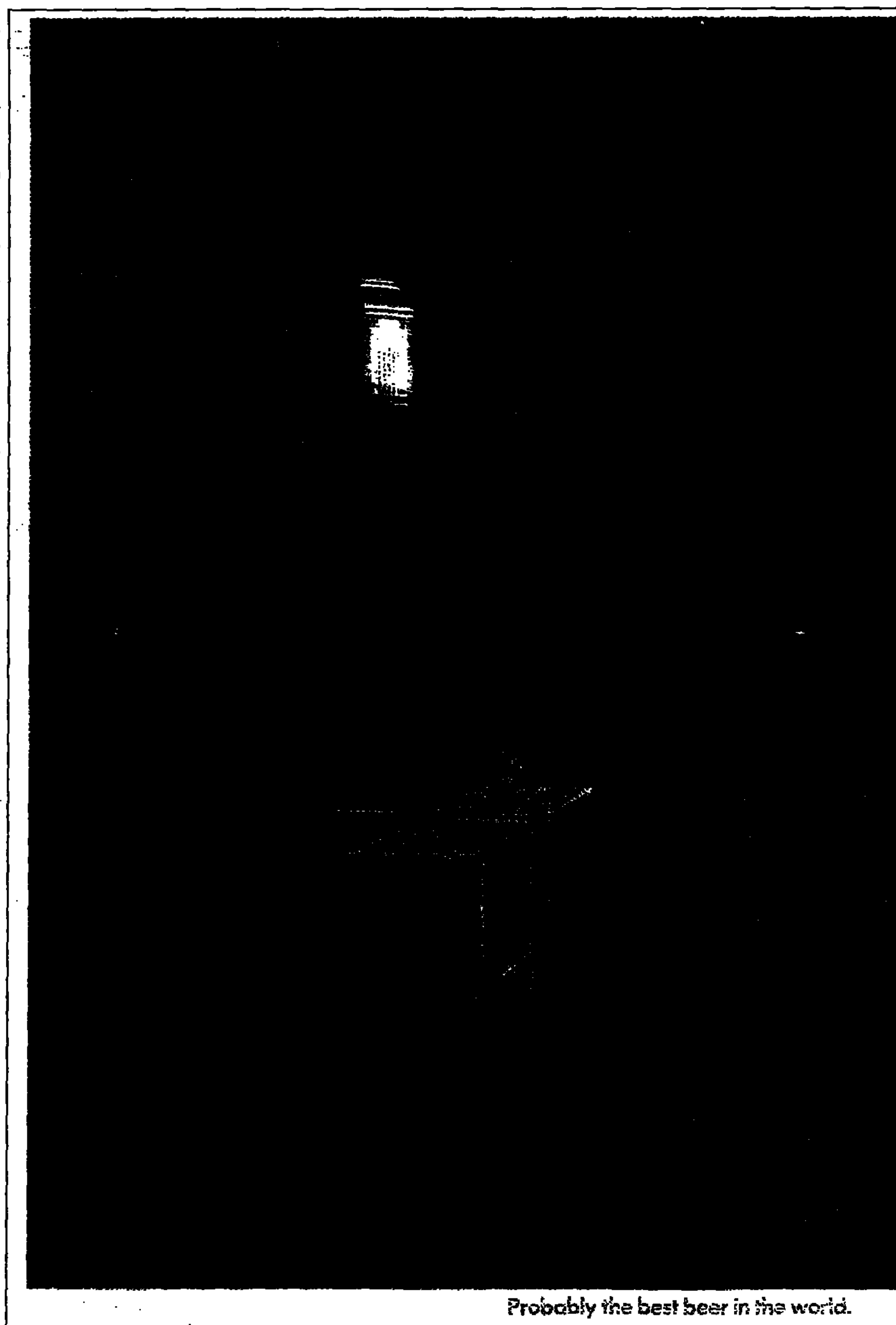
A White House statement reiterated that Mr Clinton was not the first president to testify in a criminal trial. In April Mr Clinton testified as a defence witness for over four hours in the Whitewater trial of Arkansas Governor Jim Guy Tucker, and James and Susan McDougal, Clinton investment partners, all of whom were convicted. *AP, Washington*

Brazil bashed over bean figures

The Brazilian government was under fire yesterday after it became clear that an expensive advertising campaign used misleading figures to hail the success of its *Plano Real* economic plan. Embarrassed officials acknowledged that key claims of the $3m campaign, such as an 87 per cent increase in the consumption of beans and a 96 per cent surge in beef sales, were wrong.

"Yes, the figures were totally wrong. We did give the agency the correct data but they don't seem to have been very professional," said the central bank.

Bean consumption has actually risen by a modest 1.4 per cent in Latin America's largest country since the start of the economic stabilisation plan. Beef sales rose 4.5 per cent and consumption of chicken increased 16.7 per cent – not 80 per cent as the advertisements said. *Reuter, Brasilia*



NEWS: ASIA-PACIFIC

Japan current account surplus slips

By William Dawkins in Tokyo

Japan's current account surplus declined by just over 46 per cent in the year to May, a consequence of a continued surge in imports, further swollen by higher prices of foreign goods priced in the rising dollar.

The fall in the surplus, to Y361.2bn ($3.26bn) according to preliminary data from the Finance Ministry, was a factor, along with investors' belief that US interest rates are about to go up, in another rise in the dollar's value against the yen yesterday. The US currency hit Y111.13 in Tokyo, the highest since January 1994 and 27 per cent above its level 12 months ago.

Investors' belief that the Bank of Japan may follow any rise in US rates, triggered a sharp fall in Japanese equities and government bond prices. The Nikkei 225 index fell by 1.38 per cent to 21,924.94 and long-term bond yields rose to just over 3.3 per cent. Japan's trade gap is expected to continue to shrink, pointing to further yen weakness, said economists in Tokyo.

While a weak yen is welcome to Japanese exporters, because it reduces the foreign currency price of their goods, the government yesterday voiced alarm at the recent sharp decline in the exchange rate. "Whether it is a high yen or a low yen, steep moves are not favourable," said Mr Seiroku Kajiyama, chief cabinet secretary.

The yen-based current account gap has now shrunk for each of the past nine months. Last month's fall was slightly faster than the 45.2 per cent dip recorded in the year to April.

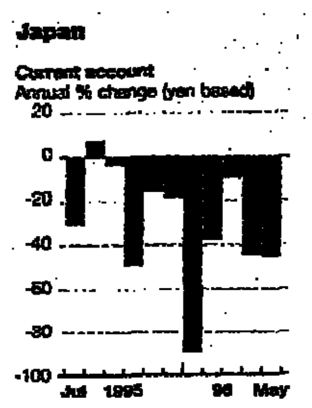
Within last month's balance, the goods and services account swung to a Y84.8bn deficit, from a Y352.9bn surplus in the same month last year.

It was the second consecutive monthly deficit in goods and services and was seen by the Finance Ministry as further proof of the depth of restructuring by Japanese companies, as they shift production to cheaper locations in Asia and re-export products back home.

Mr Tadashi Ogawa, vice finance minister – the top official in the ministry – said the downward trend of the surplus was "fairly clear" and reflected structural economic change. Imports of goods from Japanese companies' foreign subsidiaries are expected to increase, added an official.

Imports of manufactured goods rose by 36 per cent to Y2,956bn in May – the 22nd monthly rise in a row – growing more than twice as fast as exports, up by 16 per cent, the 10th month of increase, to Y3,403bn.

The surplus on the merchandise trade account fell by 41 per cent in May to Y417bn, the 18th monthly decline in a row. At the same time, the deficit on the services account rose to Y531.7bn from Y405.9bn in the same month last year, chiefly because of a sharp increase in tourist numbers going abroad, a consequence of Japan's economic recovery.



RESURGENT COMMUNISTS GIVE MAIN PARTIES A SHOCK

As Russian President Boris Yeltsin rejoiced over the defeat last week of his Communist rival, thousands of miles away in a Tokyo suburb a Communist was triumphing, William Dawkins reports from Tokyo.

Mr Hiroshi Yano, 49, became the first Communist mayor of a Japanese town since the 1960s after winning a mayoral election in Komae, a middle-class suburb of western Tokyo, at the weekend. He beat the challenger from the ruling Liberal Democratic party (LDP) by 10,238 votes to 8,881.

Much of Mr Yano's victory came thanks to a special reason: the chronic gambling and enduring bad luck of his predecessor, Mr Mitsuo Ishii, an independent backed by the ruling conservative LDP.

Mr Ishii and his family disappeared in May, along with Y1.1bn ($9.9m) in unpaid loans, prompting a police investigation which showed that he had lost substantial sums – Y60m in one day – in gambling binges at the South Korean resort island of Cheju. For suburban voters of Komae, it was a potent reminder of the dark old days of the LDP in the 1980s, when barely a year passed by without a senior party figure being tainted by financial impropriety.

"I had feared such a result would be forthcoming, given the problems the former mayor had caused," said Mr Ryutaro Hashimoto, LDP prime minister.

Yet there is a parallel political point from Mr Yano's victory. The Japan Communist party, long dismissed as the unelectable extreme left of national politics, may be gaining credence.

The JCP, probably the most extreme communist party after North Korea's, has only 15 of the 511 seats in the lower house of parliament and won only 10 per cent of the vote in the last general election in 1993.

And yet the JCP has done well in several local elections in the past year. In February it failed by only 4,000 votes to win an election for mayor of the ancient imperial capital of Kyoto. The winner, backed by all the leading political parties squeezed in with 222,579 votes, a salutary shock for the then new government of Mr Hashimoto.

The party's success is being put down to the declining fortunes of the Social Democratic party (SDP), which has been until recently the guardian of Japanese socialism.

The SDP abandoned its socialist principles on joining the conservative LDP, its life-long enemy, to form a coalition government two years ago. Not surprisingly, the socialists' supporters departed with their former party's principles.

Today, like the reconstructed communists in eastern Europe enjoying a spell in power, Japan's left-wingers are once again visible, under a new label. And, say political observers in Tokyo, the JCP could do well in the next general election, likely to take place by the end of the year.

US security adviser seeks to mend links with China

By Sophie Roell in Beijing

The US national security adviser, Mr Anthony Lake, will today hold talks with China's President Jiang Zemin and Premier Li Peng in a visit intended to put the often turbulent relations between China and the US on a more secure footing.

Mr Lake's discussions with Mr Jiang are expected to cover Sino-US relations generally, with particular focus on the possibility of holding regular high-level meetings between the two countries.

Washington has twice this year come close to imposing sanctions on Beijing for alleged sales of nuclear technology to Pakistan and for a failure to crack down hard enough on rampant piracy of US intellectual property. The trade dispute was averted at the 11th hour. Following the US House of Representatives' approval last month of renewal of most favoured nation status for China, Mr Lake's mission will be an opportunity to discuss some of the non-trade issues undermining the relationship between China and the US.

The most prominent of these is Taiwan. Washington incensed Beijing by sending two aircraft carriers to the Taiwan Strait in March as China's war games – aimed at frightening Taiwanese voters away from pro-independence ideas – got under way.

The US is now keen for Beijing and Taipei to resume talks suspended last year after Taiwan's President Lee Teng-hui's visit to the US. To that end, Mr Lake will also travel to Shanghai tomorrow, to meet the chairman of the quasi-official Association for Relations Across the Taiwan Straits.

Stability on the Korean peninsula is likely to top discussions of strategic regional matters. China and the US are the two external powers involved in the stalled four-party talks on North-South Korean reconciliation. Mr Lake is due to visit Seoul this weekend.

The national security adviser is also expected to press Beijing on compliance with nuclear non-proliferation agreements and over human rights violations.

Diplomats in Beijing say they are surprised by the level of access given to a national security adviser. They say the readiness of the top Chinese officials to meet Mr Lake – the most senior US official to visit China since Mr William Perry, defence secretary, in October 1994 – is evidence not only of an improved climate in Sino-US relations, but also of a willingness to discuss controversial issues.

However, they point out that even if a framework for discussing issues regularly is agreed, bilateral relations are now too complex to proceed smoothly for any length of time. With issues as diverse as trade and human rights under the spotlight in a US election year, the hiccups are likely to be as frequent as any meetings.

Australian telecoms get a wake-up phone call

Competition is still limited but changes are likely to intensify in the next few years, writes Nikki Tait

For Bill and Verna Cocks, it was a brief moment in the spotlight. Sitting on their comfy sofa in suburban Sydney, the elderly couple chatted down a telephone line to John Howard, Australia's prime minister, while 1,000 business people listened in.

For Australia, it was billed as the start of an era. This was the first phone call on a network that did not belong to Telstra, the government-owned telecoms giant. Moreover, with Australians already enjoying limited competition in the long-distance and mobile phone markets, Telstra's last area of monopoly – local calls – had disappeared.

Or so the hype declared. In reality, Optus Vision, the consortium offering the new local phone service via a cable network, remains coy about the number of households it can connect at present. It says only that its cabling covers "significant" portions of Sydney and Melbourne. Telstra, not surprisingly, describes the potential service area as "limited".

Even those households which can hook up may be underwhelmed by the savings. The "average Australian", according to Optus Vision, makes about 18-20 local calls a week. Optus is prepared to charge 20 cents (16 US cents) per (untimed) call against Telstra's 25 cents, a saving of about A$4 (US$3.16) a month.

But the local call launch underlined the changes in Australian telecoms, which are likely to intensify in the next few years.

Australia has been edging towards deregulated telecoms since the early 1990s. Optus Communications – privately owned and the largest partner in the Optus Vision consortium – was created to compete with Telstra in the long-distance market in 1991. Optus and Britain's Vodafone were then licensed as rivals to Telstra in the booming cellular market.

These measures were always viewed as a warm-up act. "Full deregulation" by July 1997 was the declared aim of the former Labor government – and is the target of the new Liberal-National administration.

Senator Richard Alston, communications minister, says this should mean "a multitude of service providers with equal and non-discriminatory access to carrier facilities" and "contestable market strategies which drive prices down and quality of service up".

But the regulatory framework is still being thrashed out. When the new government took over in March, much of Labor's legislative groundwork was re-addressed. Now, the plan is to introduce a bill in the next parliamentary session, which starts in August, and pass it by the end of the year.

A key issue is: How much "industry-specific" regulation is needed and how much can be safely left to the country's broader competition rules?

Telstra, with a strong market position, has tended to argue for the generic competition model; Optus, which has captured about 15 per cent of the long-distance market, argues in the other direction.

So far, every indication is that the government will provide some industry-specific rules – at least for the immediate future.

Assuming this, current players see various sensitive areas:

■ One centres on the definition of a "carrier" – which would involve certain responsibilities, including a contribution to the cost of providing a universal service.

■ The degree of discretion left to the Australian Competition and Consumer Commission (ACCC), which will have ultimate responsibility for enforcing the new regime, is another hot potato.

The basic notion is that the industry itself would develop "access codes", covering interconnection arrangements and the like. But these would be subject to ACCC approval – or intervention if it felt the arrangements were unsuitable.

■ A separate problem perceived by some players is the time pressure on the government to map out the regulatory framework, so it can proceed with its planned partial privatisation of Telstra, assuming parliament agrees. "There's always the danger of hasty legislation being poor legislation," cautions one service provider.

Given these uncertainties, no one is keen to predict how the Australian telecoms market – worth around A$12bn (US$9.5bn) in 1995 – will ultimately develop.

The existing carriers, Optus and Telstra, point out they already face growing competition from "resellers" – such as BT and Telecom New Zealand (TCNZ) – especially for large corporate and government customers. Last month, for example, AAP Telecommunications won a A$100m two-year contract to manage the South Australian government's telecoms business.

But outsiders, such as Telecom New Zealand, predict competition will probably intensify in the international/long-distance markets, with less initial activity in the local market.

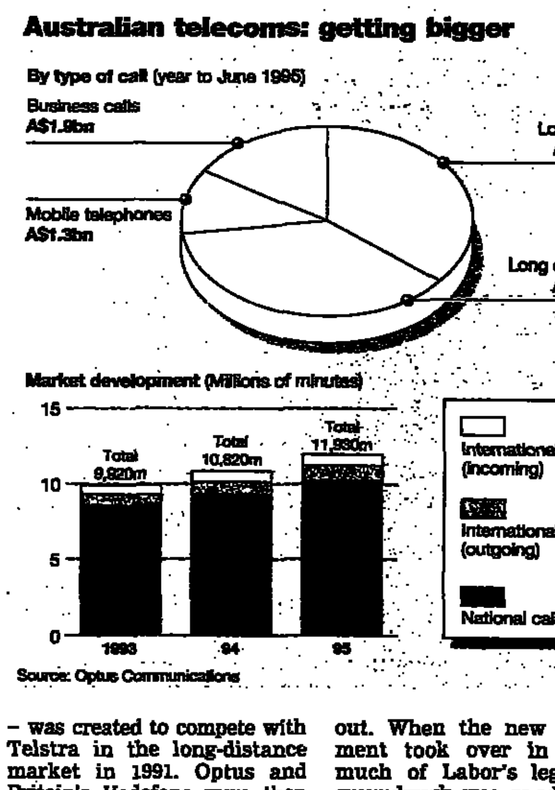
"We wouldn't expect another national player in the local market," says Mr Stuart Goodin, manager of strategic development for TCNZ.

But he does suggest that some niche cable operators running private metropolitan networks could develop. The idea has already been mooted in New Zealand, which deregulated its telecoms more speedily in the late 1980s.

On prices, there is general agreement the overall direction can only be down. Although limited competition so far has brought some cuts in charges, Australia has tended to lag industrialised countries generally. A Bureau of Industry Economics study last year found services charges for business users, for example, fell 8.9 per cent between 1990 and 1994, compared with 15.3 per cent for OECD countries on average.

For international calls, the reduction was 28.4 per cent, compared with the OECD's 34.5 per cent.

Only on mobile calls did Australia outperform – with a 26.3 per cent drop against 20.6 per cent. "Telecommunications prices are falling, but they have further to fall," the bureau concluded bluntly.



Cambodia aid tied to logging pledge

By Ted Bardacke in Bangkok

Cambodia's apparent acquiescence to international donor demands for broader reforms and a more "transparent economy" is likely to earn it pledges of $1bn in aid this week.

Aid accounts for about half of all Cambodian government expenditures. At a donor meeting in Tokyo on Thursday, donors will pledge some $940m after receiving assurances from Cambodia that it is making more transparent its "logging activities" and curbing defence spending.

More than $1.5bn in international aid has been given to Cambodia since a 1991 UN-brokered peace accord led to elections in 1993. Another $760m has already been pledged over the next three years.

Representatives of donor countries and aid organisations said Cambodia was likely to get nearly all its requested amount. But the government would be strongly reminded that it would be bound to honour promises made ahead of the meeting if pledges were to be followed through.

"I think they'll get the commitments," said the representative of one leading donor organisation. "But the cheques haven't been written yet."

Recently the Cambodian government assured donors that changes would be made to the country's haphazard – and reckless, say environmentalists – policy of secretly awarding concessions on large amounts of forest land for logging. Last month, doubts about whether revenue from these concessions would be accounted for in national accounts led the International Monetary Fund to withhold a scheduled disbursement of $20m to the Cambodian government.

Analysts said this kind of pressure – temporarily suspending disbursement until policy changes are implemented – would become a more common, if unwritten, component of the aid package being discussed this week.

Donors will also be watching to see whether the Cambodian government follows through on two main recommendations: to reduce the amount of military expenditure and to widen its revenue base. Both these are key issues if Cambodia is to wean itself from dependency on aid.

"Defence and security expenditures account for almost 60 per cent of all current expenditures, and have exceeded budgetary targets. This current allocation does not promote economic growth nor enhance social welfare," said the World Bank, one of the sponsors of the Tokyo meeting, in its most recent assessment of the Cambodian economy.

Questions of democracy and human rights will not be on the agenda in Tokyo, but donors are worried about political stability within the often squabbling two-party coalition government. Here Cambodia will also have to follow through on its promises.

"We will tell them we have political stability, are working together... but we must avoid still having arguments when we come back," first prime minister Norodom Ranariddh said as he left to attend the Tokyo meeting.

ASIA-PACIFIC NEWS DIGEST

UK Tibet move angers China

China condemned the British parliament yesterday over a planned visit by the Dalai Lama, Tibet's exiled spiritual leader, warning that Sino-British relations would be affected if the trip went ahead next week. During the one-week visit, the Dalai Lama is scheduled to address a meeting of some 200 MPs at the House of Commons, after which he will have a meeting with Mr Malcolm Rifkind, the foreign secretary.

"Tibetan affairs are purely Chinese affairs, which brook no interference by any foreign government organisations or individuals," a Chinese foreign ministry spokesman said. By offering the Dalai Lama a forum in Britain, the All Party Parliamentary Group For Tibet "is supporting and abetting the Dalai Lama's activities to split the motherland on British territory," the spokesman said. The Dalai Lama's visit to Britain – scheduled to begin next Monday – is the latest in a series of visits to European countries, all of which have been roundly condemned by China. *AFP, Beijing*

Deng son-in-law loses army post

The son-in-law of Mr Deng Xiaoping, China's senior leader, has lost his key army post, Chinese sources said yesterday. Maj Gen He Ping has agreed to resign as director of the armament department of the People's Liberation Army under pressure from generals on the communist party's central military commission. Gen He, the husband of Mr Deng's youngest daughter and confidante Ms Deng Rong, was in charge of the Chinese military's arms and equipment purchases. Ms Deng, 46, is the author of the biography Deng Xiaoping, My Father, which was translated into several languages last year and which was the subject of Ms Deng's well publicised overseas promotional trip.

Gen He's fall illustrates the quickening loss of power of Mr Deng Xiaoping, 92, who will be 92 next month and is in declining health, observers said. For several years, he has been a target of China's old-school generals who have been critical of the growing ties between money and the army. *AFP, Beijing*

South Korean MPs end boycott

South Korean President Kim Young-sam yesterday opened the National Assembly, ending a month-long boycott by opposition parties. The boycott had been called to protest at alleged abuses by the government in using law enforcement authorities, including prosecutors, to intimidate opposition politicians.

The opposition parties claim the government had threatened to prosecute some opposition MPs for alleged campaign violations during the parliamentary elections in April unless they joined the ruling party to provide it with a majority in the 299-member National Assembly. The ruling party won 139 seats in the election, but subsequently recruited another 12 opposition MPs to gain a slim majority. *John Burton, Seoul*

Kim Jong-il leads mourning

In a sign that he retains control of North Korea, Mr Kim Jong-il (*pictured left*) yesterday led a massive memorial rally in Pyongyang on the second anniversary of the death of his father, Mr Kim Il-sung, who established the North Korean state in 1948. Although Mr Kim has not formally assumed power since his father's death, speeches made by senior government officials praised the late president's son as the country's next leader. Most analysts expect that Mr Kim, who is now in command of the military, will not be officially appointed as the country's president and head of the ruling party until next July, which marks the end of the traditional three-year Confucian mourning period.

Mr Kim is using the extended mourning period to consolidate control of the government by appointing allies, most of them technocrats, to key positions. Analysts also believe Mr Kim may have decided that a formal transfer of power is inopportune now because of food shortages in North Korea caused by floods last summer. *John Burton, Seoul*

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

■ UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	91.3
1986	105.5	100.9	6.9	98.4	95.5
1987	108.4	106.0	6.1	104.2	96.7
1988	112.5	110.7	5.4	104.9	100.2
1989	115.4	112.4	5.2	97.9	99.1
1990	116.2	112.4	5.5	82.7	95.3
1991	113.5	110.4	6.8	61.7	100.2
1992	117.2	114.2	7.4	61.8	105.0
1993	123.4	118.2	6.8	67.7	110.7
1994	130.9	125.1	6.0	79.0	112.8
1995	136.1	129.3	5.5	79.1	112.9
2nd qtr.1995	4.2	3.3	5.6	77.4	111.2
3rd qtr.1995	4.5	3.0	5.6	78.8	111.0
4th qtr.1995	2.9	1.6	5.5	79.4	112.9
1st qtr.1996	3.7	1.3	5.6	78.1	115.5
June 1995	4.9	2.8	5.5	76.2	111.2
July	4.9	2.7	5.6	79.8	111.2
August	4.5	3.2	5.6	78.9	111.0
September	4.2	3.1	5.6	77.8	111.0
October	2.1	1.9	5.4	78.6	110.8
November	3.1	1.7	5.5	76.9	111.8
December	3.5	1.1	5.5	82.5	112.9
January 1996	2.1	0.6	5.7	79.6	114.2
February	5.3	2.0	5.5	79.5	115.3
March	3.7	1.4	5.6	78.1	115.5
April	-	2.5	5.4	76.2	-
May	-	3.3			

■ JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	2.6	100.0	76.4
1986	106.6	99.7	2.8	94.3	83.4
1987	113.8	103.1	2.8	108.3	91.1
1988	122.6	113.1	2.5	135.9	96.7
1989	132.5	119.7	2.2	147.0	98.7
1990	141.7	124.5	2.1	149.8	95.7
1991	144.6	126.7	2.1	144.2	92.7
1992	139.9	119.0	2.1	124.2	91.6
1993	131.8	113.6	2.5	106.6	96.9
1994	129.6	114.5	2.9	102.2	104.8
1995	128.6	118.5	3.1	106.5	109.4
2nd qtr.1995	-0.8	4.7	3.1	104.9	106.0
3rd qtr.1995	0.5	1.6	3.2	105.1	107.6
4th qtr.1995	-0.3	1.8	3.3	109.9	109.4
1st qtr.1996	5.3	1.2	3.3	110.7	108.8
June 1995	-0.3	3.3	3.2	104.5	106.0
July	-0.9	2.1	3.2	104.2	106.3
August	0.7	1.1	3.2	105.8	107.0
September	1.8	1.7	3.2	105.4	107.6
October	-1.1	2.6	3.2	109.0	107.9
November	1.3	1.1	3.4	109.6	108.9
December	-1.1	1.7	3.4	111.2	109.4
January 1996	5.6	3.0	3.4	110.1	109.0
February	4.8	3.3	3.3	114.6	109.1
March	5.3	-2.8	3.1	107.4	108.8
April	-	0.3			
May	-	2.4			

■ GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	89.7
1986	103.4	102.2	6.4	138.9	89.4
1987	107.4	102.6	6.2	149.5	90.0
1988	110.5	106.3	6.2	165.1	95.6
1989	114.2	111.4	5.6	218.5	97.7
1990	123.5	117.2	4.8	261.9	98.2
1991	130.5	117.9	4.2	297.9	95.1
1992	127.7	116.5	4.6	287.9	99.0
1993	122.3	109.2	6.1	229.0	95.0
1994	120.4	113.9	6.8	240.4	103.5
1995	-	114.2	-	267.8	108.7
2nd qtr.1995	-	1.7	6.8	276.3	101.7
3rd qtr.1995	-	-0.2	-	265.5	100.4
4th qtr.1995	-	-3.7	-	258.0	100.7
1st qtr.1996	-	-2.8	-	273.8	99.7
June 1995	-	0.6	6.8	272.2	101.7
July	-	1.0	6.8	270.5	100.9
August	-	-0.3	-	264.6	100.7
September	-	-1.3	-	261.3	100.4
October	-	-3.3	-	258.0	100.4
November	-	-2.8	-	261.3	100.8
December	-	-5.0	-	254.6	100.7
January 1996	-	0.4	-	264.6	100.7
February	-	-6.0	-	270.5	100.1
March	-	-2.8	-	286.3	99.7
April	-	-1.7	-	287.1	
May	-	-2.1			

■ FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	10.3	100.0	89.5
1986	102.4	101.1	10.4	107.0	95.6
1987	104.5	103.1	10.5	117.2	95.4
1988	107.9	107.3	10.0	135.3	100.2
1989	109.5	111.3	9.4	160.6	99.9
1990	110.4	112.8	8.9	163.2	95.1
1991	110.3	111.4	9.4	128.2	96.4
1992	110.5	110.0	10.4	109.5	95.0
1993	110.7	105.8	11.7	90.0	98.4
1994	110.7	110.0	12.3	104.1	101.5
1995	110.5	111.8	11.6	-	97.1
2nd qtr.1995	1.2	3.1	11.6	-	99.9
3rd qtr.1995	0.2	0.3	11.5	-	97.6
4th qtr.1995	-2.5	-2.1	11.6	-	97.1
1st qtr.1996	0.7	-0.4	11.8	-	99.6
June 1995	0.5	3.7	11.6	-	99.9
July	1.8	0.8	11.5	-	99.5
August	-0.3	0.8	11.5	-	98.9
September	-0.9	-0.6	11.5	-	97.6
October	-3.9	-1.5	11.6	-	97.1
November	0.4	-2.3	11.6	-	97.1
December	-4.0	-2.4	11.7	-	97.1
January 1996	0.2	-0.7	11.8	-	97.7
February	2.9	0.3	11.8	-	98.6
March	-1.0	-0.7	11.9	-	99.6
April	0.0	-0.8	11.9		
May					

■ ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1985	100.0	100.0	9.6	88.3
1986	106.8	104.1	10.4	94.4
1987	112.1	106.8	10.9	96.1
1988	107.9	114.2	10.9	100.4
1989	116.9	118.7	10.9	98.5
1990	114.5	118.0	10.3	95.2
1991	110.9	116.9	9.8	97.4
1992	116.9	115.4	9.8	94.4
1993	114.1	113.0	10.2	101.2
1994	107.4	119.5	11.1	103.2
1995	102.3	127.2	-	101.5
2nd qtr.1995	-4.5	6.1	12.2	102.1
3rd qtr.1995	-3.4	5.8	12.1	102.6
4th qtr.1995	-7.8	4.7	-	101.5
1st qtr.1996	-	0.5	-	98.1
June 1995	-5.0	5.7	n.a.	102.1
July	-3.5	4.3	n.a.	102.9
August	-1.6	8.2	n.a.	103.1
September	-5.2	5.0	n.a.	102.6
October	-13.0	4.4	n.a.	101.7
November	0.9	4.3	n.a.	101.4
December	-10.6	5.6	n.a.	101.5
January 1996	-	0.9	n.a.	100.8
February	-	-0.4	n.a.	99.4
March	-	0.8	n.a.	98.1
April	-	-2.7	n.a.	
May	-	-	n.a.	

■ UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	11.2	100.0	90.2
1986	105.3	102.5	11.2	116.1	92.8
1987	110.8	106.5	10.3	141.0	98.5
1988	117.8	111.6	8.6	144.0	96.2
1989	120.1	114.0	7.2	124.3	94.6
1990	121.1	113.7	6.9	97.8	92.3
1991	119.4	109.5	8.8	68.8	95.5
1992	120.4	109.4	10.1	69.6	97.7
1993	123.9	111.8	10.4	78.8	104.8
1994	128.5	117.4	9.5	93.9	107.2
1995	129.9	120.4	8.7	107.8	108.4
2nd qtr.1995	1.3	2.4	8.8	108.4	108.1
3rd qtr.1995	0.5	1.9	8.7	109.2	108.0
4th qtr.1995	1.2	1.8	8.6	111.8	106.4
1st qtr.1996	2.1	1.3	8.4	111.6	105.9
June 1995	1.2	2.1	8.8	108.0	108.7
July	1.2	2.5	8.8	108.2	108.5
August	0.4	1.4	8.7	107.7	108.2
September	-0.1	1.7	8.7	113.9	108.0
October	0.2	1.0	8.7	112.0	108.7
November	1.6	2.3	8.6	112.8	106.4
December	1.7	2.2	8.5	110.8	105.4
January 1996	2.2	1.4	8.5	109.9	105.6
February	2.1	1.1	8.4	110.3	105.9
March	2.2	1.2	8.3	114.5	105.9
April	2.0	0.9	-	115.3	
May	2.0	1.3			

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

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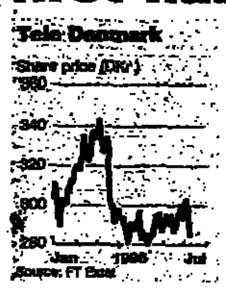
IN BRIEF

Tele Danmark in first-half warning



Tele Danmark, the state-controlled telecommunications company, warned that its first-half results would be reduced by a total of about DKr600m ($102m) compared with the same period last year because of marketing expenditure on cellular phones and price cuts in the cellular and international markets. Shares in the group fell DKr13, or 4 per cent, to DKr285 in Copenhagen. A year ago the group reported first-half profits of DKr2.26bn. Page 16

Burda withdraws Europe Online funding
The future of Europe Online, the Luxembourg-based multilingual online service, was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing funding of the venture. Europe Online said it was holding talks with new potential partners, thought to include CompuServe, the US online group, and was engaged in a "major restructuring process". Page 16

National Mutual Life to fix listing timetable
National Mutual Life, Australia's second largest life assurance group, confirmed that a decision would be made this month on the timetable for listing its parent company, National Mutual Holdings. The listing is likely to value the holding company at more than A$2bn (US$1.58bn). Page 19

Israeli and Jordanian airlines square up
The recent opening of air links between Israel and Jordan – a direct result of the 1994 peace treaty – has sparked a price war between the two nations' state-owned airlines, Royal Jordanian and El Al, which now must compete for the lucrative long-haul market. Page 19

Tomkins plans acquisitions worth £400m
Tomkins, the UK industrial conglomerate, has pledged to use almost £400m ($624m) cash to make bolt-on acquisitions and develop Gates, the US components group it is acquiring for $1.37bn. Tomkins reported annual pre-tax profits of £322.9m, up from £303m a year earlier. Page 20; Lex, Page 20

Unigate in £77m margarines purchase
Unigate is paying £77.3m for the European margarine and spreads business of Kraft Foods International in an acquisition which will heighten competition in the UK with Unilever, the dominant company in the sector. Page 20

Southern Peru Copper may lift output 70%
The US-owned Southern Peru Copper, the country's largest producer, is planning a big expansion of its Peruvian operations. Page 24

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Chief price changes yesterday

FRANKFURT (DM)				[illegible]			
Rises				[illegible]	1411	-	[illegible]
Bil & Berger	630	+	11	[illegible]	[illegible]	-	7.7
Mannesmann	529	+	6.2	[illegible]	[illegible]	-	[illegible]
Zanders Feinpap	84.5	+	4.5	[illegible]	[illegible]	-	6.5
Falls				[illegible]	[illegible]	-	8.5
Commerzbank	311.5	-	6.5	TOKYO (Yen)			
[illegible]	[illegible]	-	[illegible]	Rises			
Varta	316	-	6.5	[illegible]	[illegible]	+	[illegible]
NEW YORK ($)				[illegible]	[illegible]		[illegible]
Rises				[illegible]	[illegible]		[illegible]
[illegible]	[illegible]	+	[illegible]	[illegible]	[illegible]		[illegible]
Smith Int	[illegible]	+	[illegible]	Falls			
Weatherford	[illegible]	+	[illegible]	[illegible]	[illegible]	-	[illegible]
Falls				[illegible]	[illegible]	-	[illegible]
[illegible]	[illegible]	-	[illegible]	HONG KONG (HK$)			
[illegible]	[illegible]	-	[illegible]	Rises			
US Home	[illegible]	-	[illegible]	[illegible]	3.175		
LONDON (Pence)				Falls			
Rises				[illegible]	3.75	+	0.375
[illegible]	144	+	11	[illegible]	12.85	+	0.6
[illegible]	710	+	42	[illegible]	1.41	+	0.07
Falls				[illegible]	13.5	-	0.7
[illegible]	74	-	16	[illegible]	28.45	-	1.3
TORONTO (C$)				BANGKOK (Baht)			
Rises				Rises			
[illegible]	20.00	+	1.00	[illegible]	[illegible]	+	2.25
[illegible]	13.00	+	1.00	[illegible]	[illegible]	+	1.5
[illegible]	41.85	+	1.85	[illegible]	[illegible]	+	2
Falls				[illegible]	[illegible]	+	2.25
[illegible]	26.10	-	2.40	Falls			
[illegible]	10.25	-	3.25	[illegible]	84	-	5
[illegible]	11.30	-	1.70	[illegible]	100	-	8
PARIS (FFr)							
Rises							
[illegible]	423.8	+	9.8				

New York and Toronto prices at 12:30.

Sumitomo to take on Star TV network

Japanese group to launch Singapore-based television station with a choice of four languages for viewers in 10 Asia-Pacific countries

By William Dawkins in Tokyo

Sumitomo Corporation, the Japanese trading company, is to launch what it claims will be the world's first quadrilingual television station, to broadcast Japanese-produced entertainment programmes to 10 Asia-Pacific countries from January.

Jet TV, a 24-hour channel to be based in Singapore under Sumitomo management, will compete with Mr Rupert Murdoch's Hong Kong-based Star TV network. Viewers will be able to choose from Japanese, Thai, Chinese and English by touching a button on a remote control handset. This is the same as for bilingual Japanese and English programmes broadcast in Japan.

Sumitomo's first foray into foreign broadcasting is the latest in a long line of Asian diversifications by Japanese trading houses eager to find more profitable ventures to add to the low-margin export-import businesses which form the core of their activities.

Sumitomo's main partner will be Tele-Communications (TCI), the largest US cable television operator, with which it established Jupiter Programming, an equally-owned programme-buying venture, in February.

Jupiter will take a 65 per cent stake in Jet TV and the Singapore unit of Sumitomo will own another 5 per cent. The remaining 30 per cent is to be divided among Tokyo's five leading commercial television stations, which will provide drama, variety shows, cartoons and documentaries.

Jupiter expects to complete negotiations on the final distribution of shares, and the terms under which the stations will provide programme material, within the next few weeks.

Initially, a single channel will be broadcast to 5m cable and satellite subscribers, in Taiwan, Hong Kong, Singapore, Thailand, the Philippines, Malaysia, Indonesia, Australia, New Zealand and China, via the PanAmSat 2 satellite.

Sumitomo has plans for additional channels and hopes to expand geographical coverage to include TCI's 13m cable subscribers in the US.

The only Japanese television seen elsewhere in Asia is broadcast by NHK, the dominant public broadcasting corporation. Sumitomo believes that Japanese television programmes are of a higher quality than Asian-produced output. While that might seem a startling claim to Anglo-Saxon aficionados of Japanese game shows, it does suggest potentially lucrative Asian demand for Japanese material transmitted in local languages.

Hanson cuts assets by $5bn to meet US standards

By Tim Burt

Hanson, the industrial conglomerate, yesterday marked the latest stage of its four-way demerger by announcing a £3.2bn ($4.9bn) reduction in assets following accounting changes and write-downs in the value of its US mineral reserves.

The write-downs at Peabody, the largest coal producer in the US, and Hanson's Cornerstone aggregates subsidiary will bring the company into line with US accounting standards on the treatment of "long lived assets".

Mr Derek Bonham, chief executive, said the move would have no impact on operational cash flow and added: "It in no way reflects on the accuracy of previous accounts."

Some industry analysts, however, suggested Hanson might have overvalued the assets of both Peabody and Cornerstone in the past – a charge rejected by the company.

It said the book value reductions would cause "a small reduction in future depletion charges and a consequent small increase in profit".

In total, the book value of mineral reserves at Cornerstone have been reduced by £2.3bn to £1.3bn and by £600m at Peabody to £1.5bn. A further £300m charge is being made against Peabody's reserves to cover accounting changes over industry liabilities.

Once the demerger is complete, Cornerstone will remain part of the rump Hanson business, while Peabody will join the Energy Group along with the Eastern regional electricity generator.

Mr Bonham said profits at Peabody would fall by about £70m a year following a change in the way the US company treated coal industry liabilities.

The group – which in 1990 created £1.5bn of provisions to meet payments to the Federal Coal Industry Black Lung Fund and Abandoned Mined Land (AML) Fund – said it would treat these liabilities in future as an annual fee charged against revenue.

The black lung fund was set up in 1977 to compensate miners suffering from the illness, while the AML fund was formed in the same year to meet the cost of reclaiming former mines.

As part of the accounting changes, Hanson has removed £1.2bn of its £1.5bn provisions from Peabody's balance sheet and plans to charge £300m of previous payments to profit and loss reserves. Mr Bonham said this would cut the carrying value of Peabody's coal reserves by £1.5bn.

On a pro-forma basis, the combined effect of the £70m reduction in profits at Peabody and the new treatment of long lived assets would have reduced Hanson's pre-tax profits last year from £1.28bn to £1.22bn. The long lived asset change had a beneficial effect of £14m.

In London, Hanson shares fell ½p to 171½p.

Lex, Page 20

Spate of offerings highlights desire to diversify funding

Europeans join the asset-backed securities club

Asset securitisation, for years a growing business in the US, is starting to take off in Europe, driven by investors' search for yield and issuers' efforts to diversify their funding.

A recent spurt of offerings has highlighted the growing European interest in asset-backed securities – bonds collateralised by cash flows from underlying assets.

The latest landmark deal is a FFr40bn ($7.8bn) issue of asset-backed floating-rate notes for EPFR (Etablissement Public de Financement et de Restructuration), an entity set up by the French government in November 1995 to administer the financial support provided by the state to Crédit Lyonnais, the troubled French bank, by facilitating the liquidisation of some of the bank's assets.

The deal, expected to be launched tomorrow, will be the largest offering to hit the international bond markets. This year has also seen a flurry of issues in France, Italy, Spain, Germany and the UK, and more deals are expected from the Nordic region.

Standard & Poor's, the international credit rating agency which rates the bulk of European asset-backed securities (ABSs), has rated $10.6bn of such bonds in the first six months of this year, compared with $9.9bn for the whole of last year.

A combination of factors is driving this trend: the desire by banks and other financial institutions to lighten their balance sheets and make better use of their capital; investors' appetite for bonds with high credit ratings and attractive yields; and governments' desire to tap the capital markets for off-balance-sheet funding to relieve pressure on their budgets and help them attain the Maastricht criteria for European Monetary Union.

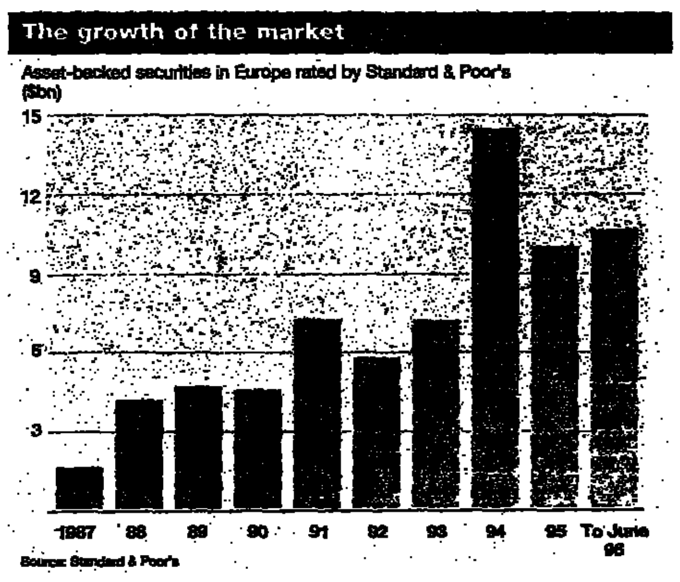
Securitisation is a way for financial institutions or companies to remove assets from their balance sheets, freeing capital and diversifying their funding sources. These assets are usually pooled in a bankruptcy-remote vehicle which raises money by selling securities to investors. Principal and interest payments on the securities are funded by the cash generated by the assets.

ABSs can be collateralised by an increasingly wide range of asset types, including residential and commercial mortgages, consumer loans, trade receivables, car loans or credit card receivables. More exotic asset classes have been securitised in the US, including health club membership payments and New York taxi medallions – licences enabling their holders to drive a cab in that city.

However, unlike the US, Europe has no natural supply of large, homogeneous pools of securitisable assets, and its ABS market is unlikely to rival that of the US.

What Europe lacks in quantity it makes up in quality, as illustrated by a series of innovative structures launched this year. They include the Spanish government's securitisation of Pta715bn ($5.6bn) of so-called nuclear moratorium debt to clear the debts of Spanish electrical companies which arose from the mothballing of nuclear power plants. Also this year, Nomura, the Japanese securities house, used the technique to fund a £672.5m ($1bn) acquisition of a passenger rail rolling stock leasing company from the UK government.

The growth of the market



Source: Standard & Poor's

"The most exciting trend in Europe is not so much the increasing volume of asset-backed securities being issued, but the diversity of asset classes being brought to the market," says Ms Kimberly Slawek, co-head of European structured finance at Fitch Investors Service, the US rating agency. "We are being asked to analyse emerging asset classes that have never been securitised before."

Institutions can have many reasons to issue ABSs. Some treasurers, for example, may wish to diversify their funding sources.

More exotic asset classes have been securitised in the US

"We want to reduce our dependency on the Dutch market and access international investors," says Mr Matthijs van den Adel, a managing director at Fortis Investments, part of Fortis, the Dutch-Belgian financial group which this week plans to launch the first guilder-denominated ABS, Fl 500m ($294m) of 10-year fixed-rate bonds backed by residential mortgages which have been guaranteed by the Dutch government.

For issuers who have a weak credit rating or none at all, launching ABSs, which are usually structured to obtain a triple-A rating, is a useful way of securing competitive funding costs. European financial institutions, faced with stiff competition in the banking sector, employ securitisation to make better use of their capital. They can achieve this by selling some of the assets they hold capital against, freeing precious resources.

"Even if a bank has a lot of capital, why tie it up against a low-yielding asset?" says Mr Kurt Sampson, director, structured finance at Standard & Poor's in London. "Instead, it can get the assets off the balance sheet and redeploy the capital more profitably."

Investor demand has been the other crucial impetus behind the market's recent growth. Hunger for yield at a time of declining bond market returns has whetted European investors' appetite for ABSs, which usually offer an attractive spread over government or corporate bonds.

"The European investor base for asset- and mortgage-backed securities has grown exponentially in recent years," says Ms Slawek.

"Investors who want to boost their portfolios' returns but don't want to move down the credit spectrum are increasingly looking at asset-backed securities."

This demand prompted US credit card issuers Citibank and Discover to issue D-Mark ABSs backed by credit card receivables originating in the US. More such deals are expected to surface in the D-Mark and sterling markets.

As investor demand for ABSs grows, spreads even in this market have come under pressure. This is neatly illustrated by MBNA, the US credit card company, which sold £200m of credit card-backed, floating-rate notes at a spread of 22 basis points over the London interbank offered rate (Libor) in August 1995, followed 10 months later by another £240m of notes yielding only 12 basis points over Libor.

Nevertheless, observers say the market is set to continue growing, spurred by investor demand for high-grade spread product and issuers' desire to diversify their funding methods.

"I am convinced securitisation is here to stay – it's not just a passing fad," says Mr Keith Ballantine, assistant director at Union Bank of Switzerland.

"It is set to continue as an increasingly important method of diversifying away from traditional funding sources and will provide a number of benefits to a wide range of European institutions."

Thai deal, Page 22

Conner Middelmann

Bermuda businessmen link to fund E Europe groups

By Vincent Boland in Prague

Mr Viktor Kožený, the émigré Czech businessman, and his Bahamas neighbour and business partner Mr Michael Dingman are to create a joint investment vehicle targeted at east European companies.

Mr Kožený is merging his Harvard Industrial, one of the largest investors on the Prague stock exchange, with Stratton, Mr Dingman's investment company which owns stakes in Czech and Russian companies and oil and gas interests in the United Arab Emirates.

The new venture, known as Daventree, will have a net worth of $1.4bn, according to the companies.

Harvard and Stratton each own 50 per cent. The venture's assets will include Harvard's large but undisclosed investment portfolio and Stratton's Czech and Russian stakes, mainly in pulp and paper, utilities, media and shipping.

Mr Dingman yesterday said Daventree would seek stakes of more than 50 per cent in new investments in eastern Europe's emerging markets, restructure them and either sell them to strategic investors or float them. The targets would include companies with under-exploited assets and those with unique franchises, he said.

Mr Kožený and Mr Dingman first joined forces in October when Stratton bought stakes in several leading Czech companies in alliance with Harvard. Mr Kožený said the merged group would "secure a substantially greater spread of risk and increase opportunities for joint investing in other countries of eastern Europe".

Daventree, like Stratton, is registered in Cyprus. Mr Dingman said it would be listed in London and New York as the need for fresh capital arose "and the company develops a track record".

Harvard Industrial was created this year through the conversion and merger of six investment funds run by Mr Kožený's asset management company. The new structure avoided the impact of rules requiring greater disclosure requirements for funds that took effect on July 1.

Dingman: joining forces

Harvard has not released details of its portfolio or investment strategy for nearly a year, while the conversion has caused its share price to collapse. This has alienated many investors and drawn fire from analysts who complained about Mr Kožený's reluctance to release information.

Analysts yesterday were cautious about the implications of the new venture for Harvard shareholders.

Tele Danmark shares slip on profits warning

By Hilary Barnes in Copenhagen

Tele Danmark, the state-controlled telecommunications company, yesterday warned that its first-half results would be hit by marketing expenditure on cellular phones and by price cuts in the cellular and international markets.

Shares in the group yesterday fell DKr13, or 4 per cent, to DKr285.

Tele Danmark said rising marketing costs for cellular phone subscriptions and handsets would reduce profits below net financial items by about DKr600m ($94.9m) compared with the first half of last year. Price reductions for cellular and international calls would cut profits by a further DKr100m, the group said.

A year ago the group reported first-half profits of DKr2.26bn, rising to DKr4.31bn for the full year. It did not specify its forecast for this year's first half, which will be boosted by the inclusion of profits on the group's 16.5 per cent share in Belgium's Belgacom on a pro rata basis with effect from April 1 this year.

Tele Danmark is exposed to fierce competition in both international traffic and cellular phones.

With the complete liberalisation of the Danish telecoms market from July 1 this year, 18 months ahead of the European Union's date for the completion of telecoms liberalisation, the group is expected to face competition in domestic fixed line voice telephony as well before long.

Tele 3, a subsidiary of Sweden's Kinnevik group, has signed an interconnection agreement with Tele Danmark, enabling it to use the Tele Danmark infrastructure to market a competing service.

Several other operators, including Global One, set up by France Télécom, Deutsche Telekom and Sprint of the US, and Telia, the Swedish state-owned operator, are also interested in entering the Danish market.

Tele Danmark said cellular subscriptions were up 210,000, or 38 per cent, to 760,000 in the first half of this year, and by 67 per cent since the end of June last year. All the growth has come in the market for GSM, the international standard for digital cellular telecoms standards. But marketing costs have soared from DKr110m in the first half of 1995 to DKr600m.

There are about 1.2m cellular phone subscribers in Denmark, representing one in four of the population. Tele Danmark claims 60 per cent of the market.

Telia awaiting EU deregulation

Swedish telecoms group looks abroad as competition mounts at home

As a state-owned operator in one of the world's most liberalised telecoms markets, Telia of Sweden is something of an anomaly. The former monopoly, which needs substantial investment to meet stiff competition from new rivals, has long been touted as a candidate for privatisation.

Following full deregulation at the start of 1993, Telia's once-closed market has opened to allcomers. Incursions by companies including British Telecommunications, Deutsche Telekom and France Télécom have led to falling margins at the Swedish group.

Telia has lost a quarter of its market for international calls and around 7 per cent of long-distance traffic. Only in local calls – where low tariffs make margins unattractive to competitors – has it held its ground.

Mr Lars Berg, Telia chief executive, is reluctant to be drawn into talk of privatisation, insisting it is an ownership matter.

Unofficially, though, management sees flotation as the best answer to Telia's capital needs – a view unanimously shared by industry observers. "Sweden is a very competitive market by European standards and you usually expect competition and privatisation to go hand in hand," says Mr Douglas Wight, European telecoms analyst at Salomon Brothers in London.

Telia has demanded a cash injection from the government of up to SKr10bn ($1.49bn) over the next five or six years, saying it can no longer fund internally its entire capital requirement of around SKr12bn a year.

"Our equity ratio is only 32 per cent and we think that in this new and more turbulent world we need a stronger balance sheet," Mr Berg says.

He can expect few favours. Last year the Swedish company was forced to share with France Télécom a SKr12bn contract for telephony services to central and local government. A state memorandum last month did contain a commitment to new, unspecified, funding, but the Social Democratic administration appears to have baulked at any sell-off. "Privatisation is not politically achievable in the current climate," one government official says.

Denied free access to most European markets and unable to raise capital independently, Telia's hands are tied. It has sought to compensate by doubling prices for local calls since 1993, but this has been more than offset by a 50 per cent fall in tariffs for long-distance calls. Pre-tax profits were SKr3.23bn in 1995, against SKr2.95bn in 1994. However operating income fell from SKr13.2bn to SKr12.8bn.

For Mr Berg, the deregulation of European telecoms markets in 1998 cannot come soon enough. Since arriving from telecommunications equipment group Ericsson two years ago, he has worked to orient Telia towards a commercial market. The workforce has been cut by more than a quarter since 1991, from 46,000 to 33,000, as part of what Mr Berg terms his "cultural revolution".

"We are under a great strain but hopefully this will mean that after 1998, we will come out as a very lean and mean player which has learned to live with the competition. That will not be true for many of our European competitors," he says.

Faced with contracting margins and slack domestic growth, he has focused Telia's strategy on opportunities abroad. Unisource – a joint venture with the national operators of Spain, Switzerland and the Netherlands – has formed a vehicle to offer data and telecoms packages to mainly corporate clients in Europe.

The alliance, which collaborates with AT&T of the US, is aiming to develop a national operating presence in the main European markets – the UK, Germany, France and Italy – ahead of liberalisation.

In addition, Telia has licences for fixed telephony services in the UK, and has established or planned operations in Norway, Denmark, Finland, Ireland, Poland, Estonia, Latvia and Lithuania. On the mobile side, it has a presence in countries as far-flung as Sri Lanka and Ecuador.

Mr Berg's hope is that foreign growth and the booming mobile sector will plug the gap from the Swedish fixed market. Cellular revenues now account for 25 per cent of turnover and aggressive marketing has helped Telia retain a 70 per cent market share, despite the challenge of three other mobile operators.

Mr Berg predicts continued robust growth in this sector, forecasting that nine out of 10 customers in Sweden will be mobile users by 2001.

He also has high hopes for Telia's drive to deliver broadband services to all Swedish households by 2004 using asymmetric digital subscriber line (ADSL) technology.

Mr Berg sees a "superinternet" comprising digital TV, interactive entertainment and electronic shopping. The network, undergoing trials in Stockholm, is likely to cost in excess of SKr25bn to build.

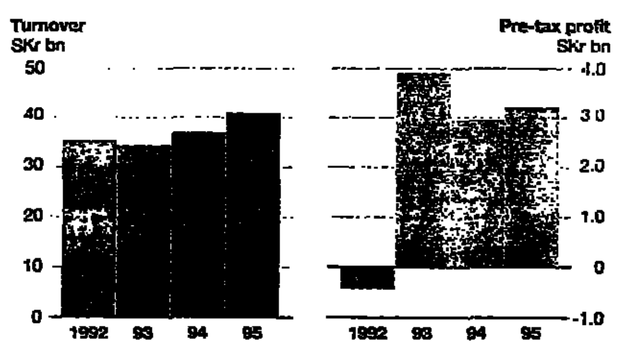
However, the initiative has raised some eyebrows. "Telia is the only telecoms company in the world that is fully committed to ADSL," one London-based analyst says.

"You could say that they are looking to the future but the research is showing that the investment is marginal because people don't pay enough for the service."

Mr Berg brushes off the objections. In the competitive world of tele- and data communications, he knows that if Telia does not take the plunge, a rival company will.

Greg McIvor

Long distance: Telia is seeking entry to main European markets



Source: FT Extel

Burda withdrawal puts Europe Online future in jeopardy

By Neil Buckley in Brussels and Simon Gray in Luxembourg

The future of Europe Online, the multilingual online service, was in question last night after Burda, the German publishing group which is its largest shareholder, said it was withdrawing from funding the venture.

The Luxembourg-based company said it was holding talks at an "intensive level" with new potential partners, thought to include CompuServe, the US online group, and was engaged in a "major restructuring process" which would involve changes in shareholding structure.

It refused to comment on reports that it would today seek to appoint an administrator in the Luxembourg Commercial Court.

Burda said it had decided to "change its online portfolio", and concentrate on Internet content production, particularly in the German market, and therefore decided to stop current financing of Europe Online. The German group is thought to have provided about DM30m ($19.6m) in financing to date.

Europe Online said Burda, which holds a 26 per cent stake, plus another 7 per cent in trust, had made "no decision" on the future of its shareholding.

"We are trying on a more intensive level to conclude negotiations with a new partner," Europe Online said.

Europe Online, in which Pearson, owner of the Financial Times, has a stake, aimed to provide a "European" alternative to US services, such as America Online and CompuServe, with a range of information and entertainment services in the main European languages. But it has had a troubled history.

It made a significant shift in strategy only months before its much-delayed launch last December from being a "closed" subscriber system – with a contract already signed to use the Interchange software of AT&T, one of its shareholders – to an open domain on the Internet, using Netscape software.

At the same time it lost a leading shareholder, France's Matra Hachette, and its then chief executive, Mr Christian Bruck.

But the Luxembourg service said yesterday it had 25,000 paying subscribers – who gain the right to a "home page" on the service, and was achieving 450,000 Internet "hits" a day.

Services have already been launched in German, French, English and Luxembourgeois, with Dutch-language services due to be launched soon.

Apart from Burda, main shareholders are said to be the Luxembourg state-owned banks SNCI and BCEE with 10 per cent, Pearson with less than 10 per cent, AT&T, Meigher Communications, and several small Luxembourg investors.

Although no figures have been released, losses at Europe Online are thought to have reached LFr592m ($18.8m) last year, after start-up costs, from LFr40m in 1994.

NEWS DIGEST

Italy sells remaining 6.9% holding in Imi

The Italian government's privatisation programme for 1997 remained on course yesterday with the successful sale of the last of its available shares in Imi, the banking group, for L501bn ($327m). The sale of the state's 6.93 per cent stake in Imi to domestic and foreign institutions completes Imi's privatisation, which started in February 1994 when 36.5 per cent of the group's share capital was sold in a public offering for L1,800bn.

The shares sold yesterday, via Imi and SBC Warburg, were priced at L12,040 each, representing a 2 per cent discount to Friday's closing price of L12,286. Despite difficult market conditions, following the upset on Wall Street last Friday, Imi shares held up well, closing down L226 at L12,060 yesterday.

The government is left with a residual 1.1 per cent shareholding in Imi, which is set to be distributed next February in the form of bonus shares to investors who took part in 1994 public offering. The final tranche of Imi shares comes less than a month after the government sold $2.1bn worth of bonds which are exchangeable into virtually all of its 34.38 per cent stake in Ina, the insurance company.

Mr Mario Draghi, director-general of the Italian Treasury, yesterday re-affirmed that the next stage of the government's privatisation programme would be the autumn sale of a second tranche of shares in Eni, the energy and chemicals company. The government has yet to announce how much of Eni's share capital it plans to sell off in October, although it is widely expected to be 15 per cent, the same percentage which was sold off last November. However, the rise in Eni's share price since flotation means that at current prices the government stands to raise L9,060bn from selling a further 15 per cent of Eni, compared with the L6,300bn it raised last November. *Antonia Sharpe, London*

Viag seeks US investors

Viag, the German industrial conglomerate, hopes to attract US investors through an American Depositary Receipt programme which the group will launch in August. The ADR programme comes after Mr Georg Obermeier, chief executive, said recently that the Munich-based group, which is built around the Bayernwerk electricity utility, had so far failed to excite investors outside Germany.

Viag said yesterday it did not yet know how the issue would be taken up but "would begin testing the waters" in the US in August. An unspecified number of Viag shares are held by London-based investors while "significantly less" are held in New York, the company said. The Viag ADR will be worth one tenth of a Viag share or about $40 at current share prices. The state government of Bavaria holds 25.1 per cent in the Munich-based group, a stake which it plans to sell before September 1998 and before the next state elections.

Bayerische Hypobank and Bayerische Vereinsbank, the two leading Bavarian banks, last week raised their stakes in Viag to 10.06 and 10.5 per cent respectively after Isar-Amperwerke, the regional Bavarian utility which will become a fully-owned Bayernwerk subsidiary, reduced its holding from 15 to 4.66 per cent. *Michael Lindemann, Bonn*

Buy-out at Schaffner

Schaffner Electronik, which manufactures filters which limit electrical interference on power lines, has been sold to its local management in a SFr159m ($126m) deal which is being billed as Switzerland's largest MBO to date. Schaffner Elektronik, which has raised its turnover from SFr20m to SFr130m over the past 10 years, claims to be the world's leading company in Electro Magnetic Compatibility.

It employs 1,075 people and has production plants in Switzerland, Thailand and Ireland. It was put up for sale some months ago by its Swiss parent, Elektrowatt, after it decided to refocus its activities and pull out of electronics. Mr Ian Forrest, managing director of HSBC Private Equity, who led the deal, said Switzerland, like many Continental European countries, has been slow to embrace the concept of MBOs because Swiss companies had not been under the same pressure to restructure as had UK companies. The total value of buy-outs in Switzerland last year was $630m, compared with $8.6bn in the UK.

Mr Forrest believes this is changing as Swiss companies are forced to adjust to a high exchange rate and divest peripheral businesses so they can concentrate on their core strengths. HSBC Private Equity and Zurmont Finanz, an HSBC affiliate in Switzerland, provided the equity funding and the acquisition debt, understood to be roughly half the SFr159m purchase price, has been arranged by The Fuji Bank.

The Schaffner buy-out team is led by Mr Alex Oechslin, chief executive, Mr Richard Muller, sales and marketing, Mr Heinrich Kunz, test equipment director, and Mr Thomas Grichting, components director. All four have been with Schaffner for more than 10 years. *William Hall, Zurich*

Solvay sees profits holding up

Solvay, the Belgian chemicals group, reiterated yesterday that it expected 1996 profits to match those of 1995 or be slightly higher. "As we said in the June annual meeting, we hope our 1996 results will be near those of 1995, or slightly higher if the European outlook improves in the second half of the year," Mr Daniel Janssen, chairman, told the French business daily, La Tribune Desfosses.

The company posted 1995 profits of BFr12.51bn ($397m), up 57 per cent from the previous year. He said that after a "very bad" December they were seeing regular monthly progress. Mr Janssen said Solvay had no plans to follow the lead of other chemical and pharmacy groups and demerge any of its activities. He added that the company "was extremely confident of growth prospects in the pharmaceutical sector," noting that pharmaceutical research and development had grown to two-thirds of total company spending from 40 per cent six years ago.

Janssen said the results of the restructuring launched in 1991 had helped the company boost productivity sharply and the company had sold off a number of non-core assets. "We must continue to dispose of certain assets, while at the same time acquiring small and medium sized companies in sectors in which we wish to grow – notably health,> he was quoted as saying. China, he added, was one of Solvay's priorities for investment in the chemicals field as the company sought to boost turnover outside Europe. It already had two joint venture companies in China and three other projects were under negotiation. *Reuter, Paris*

Poland considers bank sell-off

Poland is considering selling between one-third and one-quarter of the country's largest commercial bank, Bank Handlowy w Warszawie, before it is listed on the Warsaw Stock Exchange, a Handlowy official said yesterday. "The treasury could sell roughly between one-third and one-quarter of Handlowy's shares before it has to give up control of the bank when it enters the bourse," said Mr Slawomir Horbaczewski, director of Handlowy's Capital Markets Centre.

He said Bank Handlowy would begin the process of entering the Warsaw bourse next year and it should take one to three years for it be listed. "Next year we plan to start the procedure of entering the bourse and it should take between one and three years to complete," Mr Horbaczewski said.

Earlier Bank Handlowy, which in 1995 had a balance sheet total of 9.93bn zlotys ($3.6bn) in 1995, said it was not seeking a strategic investor. After the first five months of 1996 the bank recorded a net profit of 275.5m zlotys, against 421m zlotys for the whole of 1995. Its gross profit last year was 732m zlotys. *Reuter, London*

Valeo sales rise 15%

Valeo, the French automotive components group, saw sales rise 15.7 per cent to FFr15.06bn ($2.91bn) in the six months to June from a year earlier. It expects net profit for the period to be "of the same order" as the first half of 1995, when it posted net profit of FFr629m. Valeo said it expected sales for the whole of 1996 to rise to FFr28.5bn from FFr25.23bn last year. *AFX News, Paris*

Brazil-Bolivia gas pipeline plan moves forward

By Jonathan Wheatley in São Paulo

Long-delayed plans to build a pipeline to carry natural gas from Bolivia to Brazil have moved forward following an agreement between Petrobrás, Brazil's government-controlled oil company, and Comgás, the São Paulo state gas distributor.

The agreement follows talks between presidents Fernando Henrique Cardoso of Brazil and Gonzalo Sanchez de Lozada of Bolivia at which the two leaders agreed to give the project their full political support.

The move ends a dispute over charges that Comgás and other state distributors in south-eastern Brazil will pay to Petrobrás, and should help Petrobrás to raise finance for construction of the pipeline, budgeted at US$2bn.

A formal contract is expected to be signed within the next month. Under the deal, Comgás will pay for 55 per cent of the supply of gas guaranteed by Petrobrás, whether it uses it or not, rising to 95 per cent after 10 years. Petrobrás originally demanded payment for 100 per cent of capacity.

But Petrobrás has held firm on price: Comgás will pay $2.60 per million BTUs (British thermal units) for gas from Bolivia, compared with about $2.37 per million BTUs for Brazilian natural gas.

"This should make it easier for distributors in other states to reach similar accords," said Ms Iêda Corrêa Gomes, president of Comgás. The company expects to buy half the gas supplied by the pipeline, scheduled to enter operation at the end of 1998 delivering 8m cubic metres a day, rising to 16m cubic metres a day.

Mr Antônio Luiz Menezes, a director at Petrobrás responsible for the pipeline, said the deal would help efforts to raise finance for the project. "This makes the pipeline all the more viable and will certainly help in our talks with the banks," he said.

However, analysts said doubts remain about pricing levels.

"The price of natural gas is tied to fuel prices that are 20 per cent above international averages," said Ms Ana Cequeira of Brazilian investment bank Icatu. "It is hard to see how you can raise finance for a project based on unreal prices in an opening market."

According to an agreement signed by Brazil and Bolivia in 1993, a financial package for the pipeline should have been agreed by August 1994. Mr Francisco Moura of Brazil's foreign ministry said the two presidents discussed the pipeline at a meeting in late June and agreed that the framework for a financial package would be established by August 17.

"Nothing was put on paper, but they agreed to add a political impetus at the highest level," he said.

Alestra still waiting to make connection

An alliance to compete with Telmex is stuck in the formative stage, says Daniel Dombey

The formation earlier this year of a new company to take advantage of the liberalisation of Mexican telecoms must have worried executives at Teléfonos de México (Telmex).

The newcomers – which include AT&T, GTE and Telefónica Internacional of Spain – promised that their fledgling company, Alestra, would give the established carrier formidable competition when it lost its long-distance monopoly this year.

Moreover, they said, all of the services provided by Alestra would be marketed under the AT&T name, which compares well with Telmex's mixed reputation.

Two months on, despite a massive advertising offensive by Alestra, the picture is a little different.

The new alliance's legal status has yet to evolve beyond a letter of understanding and the company has been relatively slow in building infrastructure. However, Alestra's bosses are confident that consumers will wait for its services to be ready.

"We represent the highest quality brand in world telecommunications," says Mr Jorge Escalona, Alestra's chief executive. "We are not going to put our quality at risk to be ready [earlier]."

Some of the problems of preparing for competition are due to the company's intricate structure. In its original form, Alestra matched up AT&T and Grupo Alfa, a Mexican conglomerate.

In April, it was announced that the group would be joined by GTE, the US local telephone services provider, and Bancomer-Visa, which controls Mexico's second largest bank. Together, GTE and Bancomer had formed Unicom, another prospective long-distance competitor.

Telefónica Internacional, which had announced its intention to join Unicom some months before, also formed a further part of the new alliance.

"Many different sectors of telecommunications were coming up for liberalisation," says Mr Rodrigo Guerra, head of AT&T-Mexico. "In order to be present in all those different sectors, we decided to combine the efforts of the two groups," he adds.

The country's devaluation-inspired recession was also a reason to rationalise operations.

To date, however, the alliance has meant little more than the transfer of some 50 of Unicom's employees to Alestra. The two companies are still formally separate, with negotiations having been complicated by the increasing number of partners.

Mr Peter Hutchison, the head of telecommunications at Alfa, has promised that a final agreement will be in place before competition formally begins in mid-August. In the meantime, investments are being shouldered by Alfa and AT&T alone.

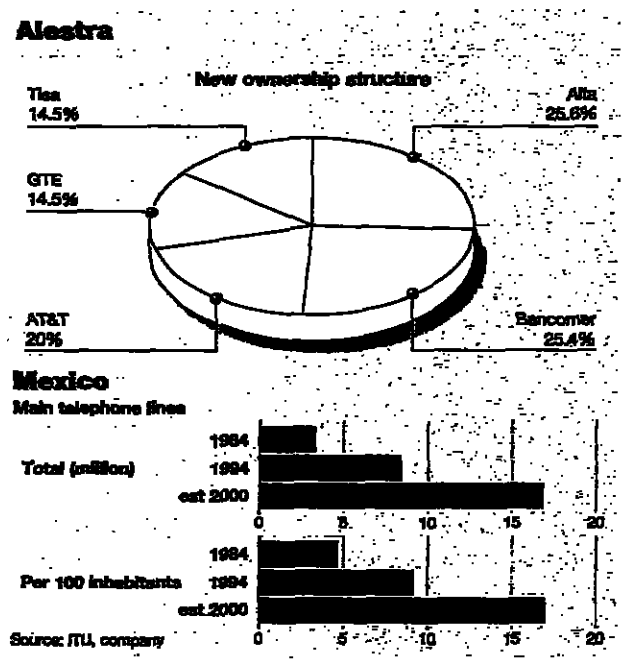
"I would not be surprised if things did not work out. These are pretty strange bedfellows," says Mr Patrick Jurczak, head of Latin American research at Nomura Securities in New York. "But an AT&T and Telefónica Internacional alignment would be very powerful if it went ahead."

When the alliance was announced, the companies committed themselves to investing $1bn in the long-distance sector and $1bn in other areas, such as cellular and local services for corporate clients. An element of doubt will remain over the investment plans until the merger is made concrete.

Alestra has built only a quarter of the 4,600km fibre optic network it wants in place for the opening of the long-distance market. Its competitor Avantel, a joint venture between MCI and Banamex, Mexico's largest bank, has all but finished its own, similar network, and from mid-August will be able to install dedicated lines. Alestra's capacity to do so will be much less.

However, the gradual nature of telecoms liberalisation mitigates Avantel's head-start. For all but wealthy corporate clients, the installation of separate lines offered by an independent network are too expensive.

Also, although Telmex loses its long-distance monopoly on August 11, it will not be until next January 1 that its new competitors will be able to pass long-distance calls through its local network.



According to Mr Escalona, customers will be willing to wait for Alestra, even if that means switching from another of the new carriers. Many people, he thinks, will be swayed by name recognition of AT&T.

The company's services – such as virtual private networks, Internet access and calling cards – are also likely to be promoted through Alestra's network of associated groups, which not only include Bancomer, but also feature leading breweries and soft drink franchises.

Such exposure could compensate for slowness in building infrastructure this year. The company certainly hopes so. "I think it is great if our competitors really believe that we will not be ready for competition on January 1 1997," Mr Escalona says. "Terrific."

Tandy warns of heavy fall in profits

By Richard Tomkins in New York

Shares in Tandy, the US consumer electronics retailer, fell $3⅞ to $41⅝ in early trading yesterday after the company warned profits would be heavily down in the second quarter to June, even excluding a restructuring charge.

It blamed the fall on weak revenues, saying sales at stores that had been open a year or more were 2 per cent lower in June than they were a year earlier.

Tandy has about 6,600 Radio Shack stores selling electronic goods, 103 Computer City stores selling personal computers and 16 Incredible Universe superstores selling computer, audio and video products.

In last year's second quarter it made net profits of $38m, or 55 cents a share. Analysts had been looking for 50 cents a share in the latest quarter.

However, in May, Tandy warned it would take a restructuring charge of $25.5m before tax, or 26 cents a share, in the second quarter to cover the cost of streamlining the Incredible Universe division, including the closure of two stores.

Yesterday the company said that second quarter earnings would be 30 per cent below those for the comparable period, excluding the restructuring charge, because sales had fallen below budget.

NEWS DIGEST

Cost-cutting set to benefit Bell Canada

BCE, Canada's biggest telecommunications group, says its Bell Canada telephone utility should earn C$950m (US$694m) in 1997 on revenues of C$9.5bn, benefiting from a tough cost-cutting programme to reduce its overall payroll by 10,000 by the end of 1998. BCE, in a regulatory filing, said most of the financial turnround will come from restructuring rather than local service rate increases granted for 1996-97.

Bell Canada earned C$502m for a rate of return of 6.7 per cent in 1995. The projected rate of return for 1997 is 12.9 per cent, or around historical levels. Bell has been subject to heavy long distance competition and price-cutting and the upsurge in earnings will have an impact on BCE directly, as Bell Canada is a 100 per cent-owned subsidiary.

Robert Gibbens, Montreal

Canadian M&A deals still high

Canadian mergers and acquisitions totalled 271 deals worth C$13.2bn in the second quarter, against 230 deals worth C$33bn a year earlier, according to Crosbie, the Toronto merchant bankers. The 1995 period included Seagram's divestment of almost 25 per cent of Du Pont and the acquisition of MCA. First-half deals totalled 520, worth almost C$25bn, against 450 worth C$43.3bn a year earlier. The continuing high level of deals is attributed to globalisation, fast-changing technology and lower interest rates.

Robert Gibbens

BBV seeks Peru telecoms stake

Banco Bilbao Vizcaya, the Spanish bank, plans to invest Pta10bn ($78m) to acquire "at least" a 1.5 per cent stake in Telefónica de España's unit Telefónica del Peru, according to reports citing BBV managing director, Mr Javier Echenique. The acquisition comes within the framework of BBV's new strategy aimed at diversifying its foreign activity in those countries where it already has a banking network. BBV operates in the Peruvian market through its unit Banco Continental.

AFX, Madrid

Schering Plough cancer move

Schering-Plough of the US has received patent protection from both US and European patent offices for the use of its p53 gene therapy in the treatment of cancer. Schering-Plough is developing new cancer treatments based on its unit Canji's proprietary scientific discoveries with p53 gene therapy technology. Schering-Plough said it expects to begin clinical trials of p53 gene therapy this year.

Reuter, New Jersey

Rio Algom in Antamina bid

Rio Algom and Inmet Mining, the Canadian mining groups, said they had submitted a joint bid to CEPRI-Centromin Peru in a public auction for the Antamina property in Peru. They said the winning bid would be announced after all the bids were opened and made public on July 12. Rio Algom and Inmet participated equally in the sealed bid, they said.

The Antamina property, located 482 km north of Lima, hosts a partially-defined copper/zinc deposit with proven and probable reserves of 128.6m tonnes grading 1.61 per cent copper, 1.38 per cent zinc, 17.7 g/t silver and 0.04 per cent molybdenum with upside potential. Further drilling is needed to define the potential of the ore body, which is open in several directions, Rio Algom said.

Reuter, Toronto

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2100	18.32	17.22	18.40
2130	18.32	18.78	17.58
2200	19.86	23.34	24.52
2230	23.84	23.34	24.52
2300	19.97	23.34	24.52
2330	18.29	17.21	18.40
2400	18.19	17.21	18.39

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 5789 between 9:30am and 5:15pm Monday to Friday.

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Hungarian share issue well received

By Nicholas Denton

Heavy demand for a share issue by TVK, the Hungarian chemical producer, has revealed the growing appeal of central European equities to mainstream as well as specialist western investment funds.

The TVK offer to foreign and Hungarian institutions, which was lead-managed by CS First Boston and closed on Friday, was more than six times oversubscribed and elicited gross demand for $650m worth of shares.

APV RT, the Hungarian privatisation authority, has increased the size of the institutional tranche from 10.5m shares to a maximum of 17m, equal to 71 per cent of the formerly state-owned company.

At the price of $8.81 a share set at the weekend, the transaction is valued at $150m, making TVK the largest equity offering to emerge from eastern Europe after that of Mol, the Hungarian oil producer.

A further 10 per cent of TVK is allocated to employees, and 2.5-5 per cent will be offered to the Hungarian public from July 16. This could add a further $30m to the offer size, giving a total of $180m.

Most privatisations in eastern Europe have occurred through the almost free distribution of shares to the public, management buy-outs or trade sales to western industrial companies in the same sector. But the return, after the Mexican financial crisis, of western investors to emerging markets has lifted Hungarian, Polish and Czech stockmarkets in 1996, and improved the climate for privatisations through equity offerings.

The Mol deal in November 1995 was cut back due to lack-lustre demand, but a recent offering by Cofinec, a central European packaging company, garnered gross demand of $690m, a record for the region.

While earlier equity issues were taken up predominantly by investment funds dedicated to the region, and in 1994 by speculating hedge funds, Cofinec and now TVK have attracted a wider range of investors.

CS First Boston said the maturity of the central European equity markets was reflected in the "ever-growing" range of investors manifested by the TVK transaction. It is understood the investors in TVK include mainstream US and UK pension and mutual funds.

TVK has also attracted institutions which invest in privatising state-owned companies. Privatisation funds, such as those run by Kleinwort Benson Asset Management and Mercury Asset Management, had previously focused on western European privatisation offerings.

The depth of western demand for east European shares will be tested in the public offering of KGHM, in which $500m of shares – about 25 per cent of the Polish copper producer – are to be sold to western institutions.

Böhler and Thyssen in welding venture

By William Hall in Zurich

Böhler-Uddeholm, the Austrian specialty steel producer, and Thyssen Stahl, the German steel maker, are combining their welding operations in a new venture which will create a powerful European force in the world market for welding materials.

The two companies announced yesterday they had signed a letter of intent to put their welding operations, Böhler Schweisstechnik and Thyssen Schweisstechnik, into a new 50:50 joint venture, Böhler Thyssen Schweisstechnik.

The businesses are roughly the same size, employing about 1,100 people each, and have a combined turnover of about Sch3.8bn ($358m).

The new company will probably rank fourth in the world after Sweden's ESAB, France's Air Liquide and Japan's Kobe.

Mr Claus Raidl, Böhler-Uddeholm's chief executive, said that "the welding industry worldwide has experienced significant consolidation through mergers and joint ventures resulting in fewer but larger global competitors".

Although the two companies have complementary product ranges, the combined operation is expected to produce about Sch140m in cost savings. Böhler has welding material plants in Germany, Austria, Mexico, the US and Brazil, while Thyssen's production is centred on Germany and Belgium.

Both groups produce stick electrodes, wire electrodes, filler wire and welding powder. The principal competitors are the heavy engineering, automotive and construction industries. Böhler-Uddeholm estimates that the total world market for welding products is Sch65bn, half in east Asia.

Although the market for stick electrodes is declining, the demand for wire electrodes is increasing and the new venture hopes to capitalise on Böhler-Uddeholm's strength in the high alloyed welding electrodes segment, where it has about 25 per cent of the world market.

The joint venture comes into operation on October 1, provided it has received the necessary antitrust approvals.

The venture is the latest sign of the considerable restructuring that has been taking place at Böhler-Uddeholm, which was privatised just over a year ago. After several years of losses, the group moved into the black in 1994, and increased its profit on ordinary activities by 158 per cent to Sch1.35bn in 1995.

The shares, floated at Sch550 in March 1995, closed Sch1.5 lower at Sch802 yesterday.

● Siemens, the German electronics group, and Sommer-Allibert Industrie, a car components company, have formed a joint venture specialising in specialist car components, such as dashboards, AFX reports from Regensburg, Germany. The partners will own equal stakes in SAS-Autosystemtechnik, which will have an initial capitalisation of DM18m ($10.5m).

The joint venture must still be approved by the European antitrust authorities.

Siemens' automotive system group had sales of DM3.2bn in the year to September 1995. Sommer-Allibert recorded annual sales of about DM2bn in the automobile supply business and plans to increase the total to about DM3bn by 1998.

National Mutual Life at A$348m

By Nikki Tait in Sydney

National Mutual Life, Australia's second-largest life office, yesterday announced an after-tax profit of A$348m (US$275m) for the six months to end-March.

The company, which is controlled by France's Axa group, confirmed that it would make a decision this month on the timetable for listing its parent company, National Mutual Holdings, on the stock market. The first possible date would be September this year, with the next likely opportunity in early 1997.

The listing will be the final stage in National Mutual's demutualisation process. Policyholders have endorsed the hand-over in ownership from themselves to shareholders, and the associated injection of funds from Axa last year. The listing is likely to value the holding company at more than A$2bn. The insurer has said that it will occur by September 1997 at the latest.

Last September NML sold a number of its subsidiaries to NMH for A$1.36bn, and received a further A$200m cash injection. Under the reorganised group structure, it has become the largest of NMH's subsidiaries.

The restructuring makes comparisons between these latest results and their predecessors difficult. But the group said that premium income in the first half of A$1.12bn compared with A$2.62bn in the year to end-September. It conceded that premiums appeared to be heading lower, but said there was a seasonal weighting towards the second half. Policy payments, meanwhile, were A$1.37bn, against A$2.99bn for the last full year, but these are also seasonal.

Investment income rose strongly to A$718m, compared with A$1.15bn in the last full year, helped by the cash injection. Nevertheless, NML warned that "markets had not progressed to the same degree since the end of March" and added that it "could not look at anything like the first half result" in the current six months.

Management expenses, meanwhile, fell to A$233m, against A$542m in the 1994/95 full year. But Mr Tony Killen, NML's managing director, said that he still saw scope for more savings.

The latest result also benefited from a one-off adjustment: A$28m was added as a result of a restatement of liabilities, compared with an A$38m charge in the year to September 1995. However, with these items included, NML said that, in effect, A$226m of the A$348m net profit represented benefits for policyholders, and A$122m the return to its parent company.

Hot tickets help agency to improve its performance

Mark Ashurst reports on a South African ticket business's plans to revamp its systems and distribution network

South Africa is possibly the only place in the world where you can buy a ticket for any cinema, theatre or sporting event anywhere in the country from a kiosk in a local shopping mall.

This is due in part to the country's past isolation – which barred competing film distribution networks from controlling the biggest cinema chains – and in part to Computicket, the reservation agency which since its inception in 1971 has tied up ticketing deals with almost every cinema, theatre and sports stadium.

Computicket is now re-engineering its business to exploit the full value of its online, real-time electronic data network. According to Mr Graeme Victor, a management consultant who succeeded theatre aficionado Mr Percy Tucker, the company's founder, as managing director in 1994, Computicket's days as a ticket agency focusing exclusively on entertainment are over. Its data network is the envy of retail banks, travel agents, betting shops and many other retailers, he says. "Today we are open to anyone who wants us to handle money for them. We will not sign exclusive contracts."

The political transition has brought an influx of foreign artists, from Pavarotti to the Rolling Stones, to perform in South Africa. The resulting surge in Computicket's income is being used to finance an array of new projects. The group, a wholly-owned subsidiary of the Interleisure group formerly controlled by hotel magnate Mr Sol Kerzner, saw revenue rise 22 per cent and operating profit before abnormal items more than double in 1995, when South Africa hosted the Rugby World Cup.

At R2m (US$460,000) last year, the pre-tax profit remains small. Computicket's average margin on ticket sales, worth R250m in 1995, is between 5 and 10 per cent, generating a turnover of R20m. But the potential is huge. Two years ago, the company posted losses of R300,000; today it is ploughing most of the gains from a 25 per cent increase in turnover into new software to make its network compatible with others worldwide.

It recently launched the world's first network of self-service cinema ticket dispensers in a joint venture with First National Bank. The new machines, based on a standard PC-based Siemens Nixdorf cash dispenser, enable cinema-goers to buy tickets for 490 cinemas in a single transaction using bank or credit cards. In future they will be able to preview films on touch-sensitive screens.

If the five pilot machines installed in Johannesburg shopping malls and health clubs prove popular, the service will be extended to other entertainment, notably the lucrative sports market. "The same technology is used extensively in the UK and Europe, but it has never before been possible to link into a national reservation network," says Mr Dirk Coetzee, head of development at Siemens Nixdorf. About 400 units will be distributed nationally within five years – almost a fourfold increase in Computicket's 110 points of sale.

Computicket's ambitions highlight the rapid growth of information technology in the highly polarised South African economy. Retailers hope electronic payment systems will help integrate the relatively sophisticated, mainly white formal sector with the predominantly black informal economy, where development is frustrated by a high crime rate and largely underdeveloped infrastructure. "Our long-term goal is to bring a majority of the population into the formal banking sector," says Mr Mike Jarvis, general manager of information technology at First National Bank.

At least 70 per cent of South Africans do not have bank or credit cards, so Computicket's dream of handling only electronic payments remains remote. Meanwhile, it offers many businesses a convenient alternative to receiving over-the-counter payments on their own premises. "We offer an online receipting system so we can reconcile the payments received and hand over the money the next day if necessary. We take all the risks of credit card fraud and crime – we are often held up at outlets," Mr Victor says.

His sights are now set on the travel industry, where reserving game lodges, self-catering units, holiday flats and caravan parks can be fraught with bureaucratic hurdles for the ordinary leisure traveller.

Jordanian and El Al lock horns

By Yaroslav Trofimov in Tel Aviv

The recent opening of air links between Israel and Jordan – a direct result of the 1994 peace treaty – has sparked a price war between the two nations' state-owned flag carriers, which must now compete for the lucrative long-haul market.

Royal Jordanian, which began flying to Tel Aviv in April is exploiting its advantage on routes to east Asia. Jordanian aircraft – unlike those of Israel's El Al – are permitted to fly over Saudi Arabia, rather than around it, cutting flight times to India and the Pacific Rim by as much as half.

Ms Dvora Bruchstein, manager of Jordanian's general sales agency in Israel, claimed that up to 40 per cent of the passengers aboard her company's Tel Aviv-Amman flights were using the Jordanian capital as a transit point on their way to Asia.

But El Al, which inaugurated its own Tel Aviv-Amman service last month, denies that its 50,000-passengers-a-year east Asia operation has suffered as a result of competition from Jordan.

The Israeli carrier is trying to exploit its own advantage on popular routes to the US, by marketing in Jordan cheap connecting flights to New York or Los Angeles via Tel Aviv.

Analysts warn that this effort may be doomed, as Jordanians are unlikely to want to go through Israel's exhausting airport security and visa restrictions in order to pay a slightly cheaper fare.

Tomkins pledges cash for new US arm

By Tim Burt

Tomkins, the industrial conglomerate, has pledged to use almost £400m ($624m) cash to make bolt-on acquisitions and develop Gates, the US components group it is acquiring for $1.37bn.

The company – which yesterday reported pre-tax profits of £322.9m (£303m) on reduced sales of £3.6bn (£3.73bn) for the year to April 27 – said it was considering acquisitions in each of its six divisions and was keen to increase Gates's sales in emerging markets.

Once the all-paper acquisition has been completed, Gates should become Tomkins's largest division by sales volume and will significantly increase the proportion of profits made in North America.

Mr Greg Hutchings, chairman, said Tomkins was determined to improve last year's 7.4 per cent operating margins at Gates, which reported underlying operating profits of £75.4m (£50.1m) for 1995.

He confirmed that Tomkins believed it could extract saving of up to £250m over three years by better management of stocks and improved financial controls at the Colorado-based company.

"They've lacked motivation to make the most of their assets," he added.

Mr Hutchings said he wanted to apply the same financial controls that have led to a 30 per cent increase in margins over the past three years at the Ranks Hovis McDougall, the foods, milling and baking business acquired for £990m in 1992.

Of the group's £303.2m operating profit last year, food products contributed £95.1m (£85.9m) and milling and baking £38.5m (£32.9m).

Improved contributions from those divisions helped offset a sharply reduced profits in professional, garden and leisure products, which fell from £47.3m to £35.8m.

Mr Hutchings blamed the shortfall on depressed sales of its Murray lawnmowers in the US, where demand was held back by inclement weather.

Profits, nevertheless rose from £37.4m to £40.7m in fluid controls and from £18.9m to £23.7m in services to industry.

Improved contributions of £69.4m (£65.3m) in industrial products also helped lift net cash by £105.6m to £394.5m.

Earnings per share rose from 17.92p to 18.88p, or from 17.46p to 18.7p after allowing for the exercise of all outstanding options.

Mr Hutchings announced a final dividend of 7.25p (6.22p), making a total of 9.95p (8.65p).

The shares rose 3p to 251p yesterday.

Low rises 6% in 'tough' first half

By Tim Burt

Low & Bonar, one of Britain's leading packaging groups, yesterday reported a 6 per cent increase in first-half profits despite difficult trading conditions and volatile raw material prices.

The company, whose manufactures cartons, plastic bags, mouldings and floorcoverings, saw pre-tax profits increase from £24.8m to £26.2m ($40.8m) on reduced sales of £211m (£218.9m) in the six months to May 31.

Mr Jim Heilig, chief executive, said it was a pleasing performance given the fall in raw material prices, which account for more than 60 per cent of Low & Bonar's costs in some product areas. He blamed falling prices for polyethylene and polypropylene – two of the bulk commodities used widely by the company – for the reduced sales as it passed on lower charges to customers.

"It has been a tough first half from the trading standpoint, but profits and margins have improved significantly," he added.

Operating profits rose from £25.6m to £27.4m as group margins improved from 11.7 per cent to 13 per cent.

Of the group's three divisions, the largest contribution came from the packaging business, which reported profits of £14.5m (£13.6m).

Profits in the plastics division rose more modestly from £4.8m to £5.21m, but were held back by sharply-reduced contributions from its North American operations.

The specialist materials side made profits of £7.71m (£7.2m).

Mr Norman McLeod, finance director, predicted that the group would benefit in the second half from lower costs and more efficient production following increased capital expenditure of £17m (£10m) in new equipment and machinery.

Jim Heilig: a pleasing first-half performance

Unigate spreads with Kraft deal

By Roderick Oram, Consumer Industries Editor

Unigate is paying £77.3m ($120.6m) for the European margarine and spreads business of Kraft Foods International in an acquisition which will heighten competition in the UK with Unilever, the dominant company in the sector.

The UK accounts for 90 per cent of the sales of the Kraft businesses through brands such as Vitalite and Golden Churn brands. The balance are in Italy including two leading margarine brands, Valle and Valle Grangusto, which will further Unigate's ambition of building a continental food business. Unigate made two small acquisitions in France last year and plans further purchases in Europe.

Unigate's purchase of Kraft's margarines "makes this much more of a three-cornered fight in the UK", said Mr Michael Landymore, an analyst with brokers Henderson Crosthwaite. It lifts Unigate's market share from 14 per cent to 25 per cent against Unilever's 44.6 per cent. The third main competitor is Dairy Crest, the manufacturing arm of the defunct Milk Marketing Board, with 12.2 per cent. Dairy Crest yesterday issued its pathfinder prospectus for its stock market flotation next month.

Unigate has long been rumoured as a potential buyer of Dairy Crest to bolster its own milk processing and spreads business. With a market capitalisation of £200m-£250m Dairy Crest will be roughly 70 per cent owned by farmers and 30 per cent by institutions.

Kraft, the food arm of Philip Morris, the US cigarette, beer and foods group, has shed six European businesses in the past six months as it focused on its core products of coffee, confectionery, cheese and groceries.

Tesco eyes Docks de France

By Christopher Brown-Humes

Tesco, the UK supermarket group, is understood to be considering a white-knight intervention in the battle for Docks de France, the French retailer under siege from the privately-owned Auchan group.

A move could cost the UK group up to £2.5bn ($3.9bn) and would almost certainly involve a big rights issue. But it would give the company the critical mass it has been seeking in France following its acquisition of Catteau, the French retail group.

"The idea of Tesco moving for Docks de France is far from fanciful," said one company adviser. "The market has always thought that Catteau would be augmented with another acquisition."

Tesco's interest follows Auchan's FFr17bn ($2.1bn) hostile bid for Docks de France two weeks ago at FFr1,250 per share. Docks de France is a quoted retail company best known for controlling the Mammouth supermarket chain.

Tesco has made it clear it wants to continue expanding in France and eastern Europe, where it has already invested £340m. It bought Catteau, which has 120 stores, in May 1993 but the French unit's performance has been disappointing.

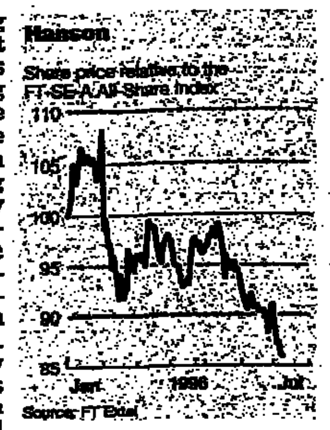
Tesco is under pressure to move quickly because of the rapid restructuring of the retail French market. Consolidation is being driven by tough restrictions on large retail developments and an increasing shortage of acquisition opportunities.

But one hurdle could be the UK group's UK rival, Sainsbury, which has an alliance with Docks de France and two other European groups.

Mr Paul Smiddy, analyst with Credit Lyonnais Laing in London, said: "It's too big, too soon to be ideal for Tesco. The company still hasn't got a sufficiently good growth record at Catteau." He suggested it might be easier for Tesco to buy some stores from Auchan if the latter's bid was successful.

LEX COMMENT

Hanson



The skeletons are rattling out of Hanson's cupboard at a rapid pace, as it completes its pre-demerger spring clean. Following hard on the heels of a cut in the future dividend, and a reduction in earnings from accounting changes, Hanson yesterday introduced a £3.2bn write-down in its asset value. The reductions at Hanson's Peabody and Cornerstone subsidiaries are a response to a new US accounting policy. But they bear an uncanny resemblance to the write-ups in assets that Hanson announced when it acquired those businesses – write-ups which looked unjustifiable at the time.

The latest changes have no impact on either Hanson's earnings or cash flow, and these are the primary yardsticks for valuing its shares. Nonetheless, it is worth considering what Hanson would look like, if it had introduced these changes – which are primarily unrelated to demerger – but had not broken itself up. Based on September 1995 figures, shareholders' funds would drop from £3.6bn to £400m, earnings per share would fall 5 per cent, and analysts would doubtless be predicting a dividend cut of 50 per cent – the rough extent of its reduction post-demerger. Placed in that context, the 19 per cent share price fall since the restructuring was announced looks relatively subdued, and underlines the rationale of the break-up. At least, with demerger documents due out next month, there is little time for more skeletons. Hanson will have to work at winning back confidence in the strength of its remaining balance sheet, given its recent battering. But the shares are finally trading below realistic estimates of their break-up value.

Electronic Retailing seeks listing on Aim

By Martin Brice

Electronic Retailing Systems, the US supplier of electronic shelf labelling systems for retailers, is seeking £7.7m ($12m) via a placing and admission to the Alternative Investment Market.

The company is listed on Nasdaq, the screen-based US exchange and this is the first application to join Aim by a Nasdaq-quoted group. Its product allows price changes and stock information to be transmitted between the shelf unit and the store's central computer.

Mr Bruce Failing Jr, president and chief executive, said: "We are in the process of negotiating with various distributors who will be selling our product in Europe and it would be helpful to our marketing over the next few years if we were listed in London."

He said a rival Swedish company called Pricer had a market multiple 10 times that of his company, which suggested European institutional investors were interested in the potential market for electronic retailing systems.

Henderson Crosthwaite has placed 4.9m shares at 145p each, and in addition, directors of ERS have subscribed for 911,657 shares in a private placing to raise £1.3m. The market capitalisation of ERS at the placing price is £30.6m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Barr (AG)	6 mths to Apr 27	46.2	(41.4)	1.02	(1.82)	3.82	(6.37)	2	Aug 9	2	-	8.2
Beverley	Yr to Feb 29 □	1.93	(4.15)	1.23L♠	(3.02L♥)	1.15L	(8.64L)	nil	-	nil	nil	nil
Bucknall	Yr to Apr 30	30.4	(20)	0.913	(0.509)	3.1†	(2.7)	0.5	Oct 7	nil	0.5	nil
Firth	Yr to Mar 31	30.3	(21.6)	1.84♠	(0.310)	2.78	(0.47)	nil	-	nil	nil	nil
Ivory & Sime	Yr to Apr 30	17.3	(16)	6.53	(5.93)	13.71†	(12.95)	5.75	Sept 16	5.25	8.25	7.5
Kenwood Appliances	Yr to Apr 4	196.7	(142.4)	15.57	(13.46)	23.8	(22.4)	6.75	Aug 27	6.75	10	10
Low & Bonar	6 mths to May	211	(218.9)	26.2	(24.8)	18.43	(16.77)	4	Oct 7	3.6	-	13.2
Marling Industries	Yr to Mar 31	67.1	(64.4)	5.1	(3.5)	1.63†	(0.85)	0.6‡	Oct 9	0.57‡	0.85‡	0.82‡
Megalomedia ϕ	Yr to Mar 31	1.84	(1.1)	0.309	(0.1)	0.73	(0.83)	-	-	-	-	-
Prior	Yr to Mar 31	3.12	(3.25)	0.205L♠	(0.549♠)	4.78L	(6.71)	3	Aug 30	2.4	5	4
Shield Diagnostics	Yr to Mar 31	5.83	(4.76)	0.276	(0.276)	1.48	(1.48)	-	-	-	-	-
Tomkins	Yr to Apr 27	3,603	(3,726)	323	(303)	18.88†	(17.92)	7.25	Oct 7	6.22	9.95	8.65

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ϕAim stock. §USM stock. □Comparatives for 14 months. ‡Foreign income dividend.

ICI Paints in Vietnamese move

ICI Paints, a division of the UK chemicals group, has spent $2.8m (£1.8m) buying into an existing paints manufacturing joint venture in Vietnam.

Under the deal, ICI Paints will acquire from Hong Kong-registered company Hong Biu its 65 per cent stake in Vina Paint, a joint venture based in Thu Duc, 15km outside Ho Chi Minh City.

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BUSINESSES FOR SALE

Gilts lifted by weak producer prices data

By Samer Iskandar in London and Lisa Bransten in New York

European bond markets took a respite after Friday's hectic session, but continued to outperform US Treasuries, albeit in moderate volumes.

UK gilts were supported by weak producer price data, which revived the debate over further interest rate cuts. Liffe's September long gilt future settled at 106$\frac{5}{32}$, up $\frac{7}{32}$.

In the cash market, the 7½ per cent gilt due 2006 was up $\frac{3}{16}$ at 107$\frac{7}{32}$, its yield spread over bunds 5 basis points tighter at 149 points. The yield spread over US Treasuries tightened by 8 basis points to 90 points.

Output prices fell 0.2 per cent month-on-month in June, slowing the annual rate of increase to 2.6 per cent from 2.8 per cent in May. Although industrial production was stronger than expected, rising by 0.8 per cent month-on-month in May, the weakness of manufacturing output, which was unchanged from April, confirmed the quasi-stagnation of the economy.

"If the recovery fails to take hold, rates will be cut again as inflation falls," said Mr Simon Briscoe, an economist at Nikko Europe.

■ Italian BTPs showed a strong performance on rising expectations of rate cuts by the central bank. Liffe's September BTP future closed at 117.21, up 0.09, before reaching a high of 117.38 in after-hours trading.

Market participants seemed increasingly confident that a rate cut was imminent. "There is room for a monetary easing," said Mr Marcello Pericoli, an Italian economist at San Paolo Bank in London. "But we do not expect any rate cuts until around the end of August." Mr Pericoli predicts official interest rates will be between 150 and 200 basis points lower by year-end.

■ Spanish bonos also outperformed bunds. The September future on 10-year bonos closed at 100.89, up 0.49. The 10-year spread of bonos over bunds tightened by 9 basis points to 219 points.

Economists at Bank of America believe the "scope for Spanish outperformance . . . looks limited right now". However, they remain bullish on bonos and recommend establishing "new spread positions" if the yield gap over bunds widens again to around 235 basis points.

GOVERNMENT BONDS

■ German and French bonds showed the weakest performances among European markets. Matif's September notional future settled at 121.28, down 0.22. In the cash market, the 10-year benchmark OAT was 0.14 lower at 104.80, its yield 4 basis points lower than that of the equivalent bund.

Liffe's September bund future closed at 95.13, down 0.04. In the cash market, bunds outperformed US Treasuries. At the European close, the yield of the 10-year T-Note stood at 59 basis points over that of the equivalent bund, 4 basis points wider than on Friday and up 21 basis points from last Thursday.

■ US Treasury prices were stable in quiet trading in the wake of Friday's sell-off that sent the benchmark 30-year bond nearly 3 points lower.

In early morning trading, the long bond was down more than a quarter-point as selling in Asia and Europe carried over into the US session. By midday, however, the long bond was just $\frac{1}{16}$ lower at 85$\frac{13}{16}$ to yield 7.186 per cent.

At the short end of the maturity spectrum, the two-year note was down $\frac{1}{32}$ at 99¾, yielding 6.437 per cent. The September 30-year bond future was ⅛ lower at 106$\frac{5}{32}$.

The market tumbled on Friday after a stronger than expected figure on June employment sparked fears that the Federal Reserve might raise interest rates even before the next meeting of its Open Market Committee in August.

Mr John Spinello, a government securities strategist at Merrill Lynch, said many investors proved unwilling to sell securities given the recent rise in yields.

Some bargain hunting after Friday's decline had also helped to stabilise the market, he added.

Investors are focusing on Friday's release of figures on June producer prices and retail sales for signs of whether the strong economic growth seen so far this year will translate into inflationary pressures.

JP Morgan launches European dollar OIS

By Samer Iskandar

Short-term interest rate volatility is likely to increase in the run-up to European monetary union, reinforcing the need for a wider range of hedging instruments.

"Market volatility is gradually shifting from foreign exchange rates to interest rates," says Mr William Porter, short-term interest rate product manager at J.P. Morgan.

DERIVATIVE INSTRUMENTS

The US investment bank yesterday launched the first European Overnight Indexed Swap (OIS) on US dollars. The underlying floating rate for this fixed/floating-rate hedging instrument is the Fed Funds effective rate.

J.P. Morgan says these instruments are becoming the key short-term interest rate hedging tool across Europe – trading in French franc OISs approaches the volumes of exchange-traded Pibor futures.

Mr Porter insists that for an OIS to succeed, "it is essential that the published index be as representative as possible of the rate at which actual transactions are carried out".

The Ecu offers a good example. The Bank for International Settlements participated in the creation of the index, which is compiled from rates on all component currencies through more than a dozen banks. Overnight transactions are then settled at the compiled rate, which ensures published and effective rates match.

Market participants say there is strong demand for OISs in sterling, but no product is on offer yet due to the absence of a benchmark.

Thai groups plan securitised FRNs

By Louise Lucas in Hong Kong

Two Thai companies are to launch a $270m-$300m floating-rate note issue backed by motor vehicle lease receivables next Monday. It is the first such securitised deal from an Asian emerging market and follows a smaller private placement carried out in Hong Kong.

ING Barings, arranger and lead manager for the transaction, says the deal has already stimulated interest from similar companies in Thailand, and the investment bank also expects to tap markets in Indonesia and the Philippines.

Because the deal is guaranteed by the monoline insurer MBIA, which has a triple-A rating, the FRNs will also carry a triple-A rating – higher than the single-A country rating of Thailand.

The notes are being launched as a eurobond issue, to be distributed in Europe and Asia by Thai Cars, a specially created vehicle that brings together Tru-Way, which has a portfolio of hire-purchase contracts, and Tisco Leasing, which has a portfolio of motor vehicle lease receivables.

Mr Jim France, director of structured finance at ING Barings, says the format is cost-effective for the issuers. While the first issue is expensive because of one-off legal fees, on-going costs will be lower – and Thai Cars plans to use the method to raise funds in future. The FRNs will be priced at between 20 and 23 basis points above Libor.

Bankers are divided on the success of motor vehicle lease securitisation in Asia. Some point to the experience of Europe, where securitisation has not taken off to the same extent as in the US, and suggest a similar scenario in Asia. But Mr France attributes the lack of interest in Europe to low borrowing costs for banks and companies on one hand and well capitalised banks on the other.

By contrast, the model gives Thai companies the ability to issue triple-A rated paper, and to tap lower-cost funds. Moreover, adds Mr France, Thai companies involved in leasing find it difficult to raise money on their own as they are in the finance business, but not regulated by Bank of Thailand. "The only real source of funding they have is the bank market, and the banks will quickly run out of credit exposure and the auto market is accelerating rapidly," he said.

The notes have a final maturity of six years, an expected final maturity of 39 months and an expected average life of 1.6 years.

Japan's Exim Bank set to raise $750m

By Antonia Sharpe

Japan's Exim Bank is set to launch a $750m five-year eurobond offering today, undeterred by the volatility in the bond markets following Friday's sell-off in US Treasuries.

INTERNATIONAL BONDS

The bonds, via Nomura and Merrill Lynch, are likely to be priced to yield 14 basis points over Treasuries, to produce an eye-catching 7 per cent coupon. The offering, marketed to investors overnight, is the largest to date for a Japanese government-guaranteed agency.

Exim Bank is believed to have wanted a slightly tighter spread of 12 basis points, but decided to play safe because of the difficult market conditions. By pricing the bonds at 14 basis points over Treasuries, they were likely to sell well, syndicate managers said.

The Inter-American Development Bank is also looking to raise $500m through an offering of five-year bonds. It is holding a meeting today to discuss tactics but has yet to appoint lead managers.

Borrowers tapping the eurobond market yesterday also acknowledged the importance of an attractive coupon and a relatively short maturity to entice investors, in particular retail, into a difficult market.

Austria's $200m offering of long three-year bonds carried a coupon of 6⅝ per cent. Lead manager Daiwa said the sell-off in Treasuries enabled it to achieve a higher than usual coupon, which should appeal to retail investors. The bonds, due December 1999, were priced to yield 5 basis points below 6⅝ per cent Treasuries due May 1999 but syndicate managers pointed out that they yielded a hefty 15 basis points below the interpolated curve. On that basis, the bonds were expensive, they said. When they started trading, the yield spread widened to three basis points below three-year Treasuries.

Daiwa said the high redemption rate of dollar-denominated eurobonds was likely to lead to further issuance of short-dated eurobonds. Redemptions are running at $8bn in July, $10bn in August and $12.5bn in September.

An attractive coupon, of 5¾ per cent, was also evident in GECC's DM250m offering of five-year bonds which were priced to yield 15 basis points over German government medium-term notes.

Some syndicate managers said the pricing was rich compared with DSL Bank's recent re-opening, but lead manager SBC Warburg said the bonds offered a respectable pick-up of 5 basis points over the European Investment Bank's five-year D-Mark bonds.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Republic of Austria(a)	200	6.625	99.80R	Dec 1999	0.1875R	-5(6⅝%-99)	Daiwa Europe
Ascot Capital‡	100	(a)	100.10	Jul 1997	0.10	-	Lehman Brothers Intl
■ D-MARKS							
GECC(f)	250	5.75	99.68R	Aug 2001	0.25R	+15(5¼%-01)	SBC Warburg
■ ITALIAN LIRE							
Eurofima(b)	200bn	6.85	101.66	Aug 2002	1.75	-	BNL/San Paolo, Turin
■ AUSTRALIAN DOLLARS							
New Sth Wales Treasury Corpn	200	8.00#	99.675	Jul 2001	1.875	-	Nomura International
■ DANISH KRONER							
Swedish Export Credit	400	(c)	101.35	Aug 2001	1.875	-	Kreditbank Intl Group
■ FINNISH MARKKA							
Valmet(d) Treasury(f)	400	6.875	101.41	Jul 2001	1.875	-	Deutsche Morgan Grenfell

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡Unlisted. † Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor -40bp. b) Exchangeable annually from 5/9/98 at issuers option into FRN paying 6-mth Libor flat. c) 5.50% to 27/8/99, then 8.25%. f) Long 1st coupon. d) Short 1st coupon.

Liffe, CBOT set link date

By Samer Iskandar

A link between the Chicago Board of Trade and the London International Financial Futures and Options Exchange, decided in December 1995, will be implemented on May 7 1997.

Each exchange will allow the other to trade its leading long-term bond future in open outcry, which will bring Liffe's bund futures and CBOT's US Treasury bond futures closer to 24-hour trading.

The link was originally planned for June 28 1996, but was delayed for technical reasons associated with the markets' clearing houses.

In a second phase of the agreement, Liffe will start trading CBOT's futures on five-year and 10-year US Treasury notes. In exchange, CBOT will have access to Liffe's long gilt and Italian BTP futures.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.7460	-0.140	8.82	8.90	8.82
Austria		6.250	05/06	98.8400	-0.060	6.59	6.52	6.40
Belgium		7.000	05/06	100.8700	-0.510	6.87	6.76	6.66
Canada *		7.000	12/06	93.6500	-0.280	7.91	7.71	7.55
Denmark		8.000	03/06	103.7000	-	7.44	7.40	7.38
France	BTAN	5.750	03/01	100.1250	-0.130	5.71	5.58	5.48
	OAT	7.250	04/06	104.8000	-0.140	6.56	6.49	6.44
Germany Bund		6.250	04/06	97.5000	+0.050	6.60	6.51	6.42
Ireland		8.000	08/06	101.9900	+0.130	7.70	7.63	7.57
Italy		9.500	02/06	102.2200	-0.130	9.14†	9.21	9.26
Japan	No 140	6.600	06/01	118.9926	-0.130	2.31	2.24	2.30
	No 182	3.000	09/05	97.8857	-0.240	3.30	3.20	3.19
Netherlands		6.000	01/06	98.2200	-0.060	6.54	6.44	6.30
Portugal		11.875	02/05	118.4400	+0.440	8.72	8.78	8.83
Spain		8.800	04/06	99.8900	+0.500	8.80	8.80	9.02
Sweden		6.000	02/05	85.9017	-0.150	8.36	8.19	8.39
UK Gilts		8.000	12/00	102-30	+2/32	7.20	7.21	7.39
		7.500	12/06	98-28	+6/32	7.94	7.92	8.06
		9.000	10/08	107-06	+6/32	8.06	8.02	8.16
US Treasury *		6.875	05/06	98-21	-9/32	7.06	6.73	6.67
		6.000	02/26	85-14	-12/32	7.19	6.91	6.86
ECU (French Govt)		7.500	04/05	102.9000	-0.190	7.04	6.90	6.87

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.49
Prime rate	8¼	Two month	-	Three year	6.66
Broker loan rate	7	Three month	5.33	Five year	6.87
Fed funds	5$\frac{5}{16}$	Six month	5.61	10-year	7.09
Fed funds at intervention	-	One year	5.90	30-year	7.22

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	121.32	121.28	-0.22	121.36	121.12	80,434	155,476
Dec	119.92	119.86	-0.20	119.96	119.82	285	28,842
Mar	119.14	119.16	-0.24	119.74	119.74	2	1,514

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Aug	Calls Sep	Calls Dec	Puts Aug	Puts Sep	Puts Dec
120	-	-	1.36	0.11	0.33	1.41
121	0.60	0.98	0.86	0.35	0.67	-
122	0.10	0.47	-	0.86	1.20	-
123	0.02	0.17	-	-	-	-
124	-	0.05	-	-	-	-

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.70	95.13	-0.04	95.30	94.85	123496	205085
Dec	94.03	94.23	-0.04	94.22	94.00	865	4560

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9500	0.43	0.71	0.52	0.79	0.30	0.58	1.29	1.56
9550	0.19	0.48	0.35	0.61	0.56	0.83	1.62	1.88
9600	0.07	0.27	0.23	0.45	0.94	1.14	2.00	2.22

Est. vol. total, Calls 7182 Puts 11044. Previous day's open int., Calls 148039 Puts 161057

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	116.79	117.21	+0.09	117.42	116.65	29792	65219
Dec	116.20	116.51	+0.11	116.20	115.17	440	697

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11700	1.18	1.70	0.97	2.19
11750	0.93	1.49	1.22	2.48
11800	0.71	1.24	1.50	2.73

Est. vol. total, Calls 4318 Puts 1631. Previous day's open int., Calls 73634 Puts 66281

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100.44	100.89	+0.48	100.90	100.05	58,476	58,612

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	105-26	106-10	+0-07	106-15	105-24	35482	128206
Dec		105-15				0	516

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
106	0-48	1-10	1-02	1-35	0-26	0-54	1-38	2-05
107	0-16	0-43	0-42	1-08	0-62	1-23	2-12	2-43
108	0-05	0-23	0-25	0-53	1-49	2-03	2-59	3-23

Est. vol. total, Calls 3033 Puts 437. Previous day's open int., Calls 22138 Puts 20705

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	90.36	90.30	-0.20	90.36	90.14	664	7,030
Dec	-	89.00	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	106-08	106-05	-0-07	106-10	105-29	385,685	439,344
Dec	105-21	105-22	-0-06	105-22	105-12	2,220	18,341
Mar	-	105-16	-	-	-	341	3,095

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	118.39			118.48	118.35	1447	0
Dec	117.35			117.44	117.35	170	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Mon Jul 8	Day's change %	Fri Jul 5	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	122.26	0.02	122.24	2.73	4.72
2 5-15 years (19)	146.11	-0.09	145.97	2.17	6.12
3 Over 15 years (9)	160.53	0.11	160.15	2.72	6.30
4 Irredeemables (6)	181.99	-0.42	182.77	2.61	6.36
5 All stocks (56)	141.88	0.07	141.68	2.53	5.67
Index-linked					
6 Up to 5 years (1)	199.79	0.07	199.66	1.78	4.43
7 Over 5 years (11)	187.60	0.11	187.67	1.59	2.09
8 All stocks (12)	187.76	0.11	187.79	1.60	2.13

Yields	Low coupon Jul 8	Low Jul 5	Low Yr. ago	Medium coupon Jul 8	Medium Jul 5	Medium Yr. ago	High coupon Jul 8	High Jul 5	High Yr. ago
5 yrs	7.32	7.33	7.85	7.38	7.38	7.86	7.45	7.46	7.94
15 yrs	8.17	8.16	8.17	8.17	8.19	8.21	8.26	8.26	8.32
20 yrs	8.27	8.25	8.18	8.26	8.27	8.22	8.33	8.31	8.33
Irred.†	8.34	8.30	8.26						

Index-linked	Inflation 5% Jul 8	Jul 5	Yr. ago	Inflation 10% Jul 8	Jul 5	Yr. ago
Up to 5 yrs	2.54	2.57	3.22	1.07	1.09	1.64
Over 5 yrs	3.80	3.81	3.64	3.60	3.60	3.46

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jul 8	Jul 5	Jul 4	Jul 3	Jul 2	Yr ago	High*	Low*
Govt. Secs. (UK)	92.66	92.69	92.02	92.80	92.91	93.19	96.34	91.59
Fixed Interest	113.85	112.48	112.52	112.50	112.53	112.08	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1
Gilt Edged bargains	87.0	85.7	76.2	84.9	77.4
5-day average	85.2	80.6	79.2	82.1	82.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on July 8

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Fixed Interest						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for October 1995: 149.8 and for May 1996: 152.9.

■ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

MARKETS REPORT

Markets await the Treasury report

By Gillian Tett

Currency markets were subdued yesterday as dealers' attention remained split between the market swings in the US at the end of last week - and the prospect of fresh UK policy developments today.

In the UK, the main focus of interest was today's summer economic forecast from the British Treasury. With the details of this not released until mid-morning, traders were reluctant to take strong positions ahead of the report.

However, for Continental European currencies, interest remained fixed on last week's comments from the Bundesbank about the likelihood of further German rate cuts.

Meanwhile, traders on both sides of the Atlantic continued to mull over the prospect of a US interest rate rise, following last week's stronger-than-expected US jobs data.

■ In the UK, the markets had some mixed data to digest after official figures showed that manufacturing output was flat year on year in May.

The muted picture provided further evidence of the weak state of export markets. But though this left some economists concerned about the state of demand, it also had favourable inflation implications: prices for factory goods fell for the second month running.

On balance, economists decided that this made an interest rate rise fractionally less likely: the sterling futures contract for December rose by 5 basis points during the course of the day's trading to 94.14. At this level traders expect UK base rates to be slightly below 6 per cent by the end of the year - or a fraction higher than their current level.

The data was slightly supportive for sterling, helping it to maintain its level against a strengthening D-Mark and dollar. It closed at DM2.375, compared to a previous close of DM2.376. Against the dollar it closed at $1.554, compared to $1.555 at the end last week.

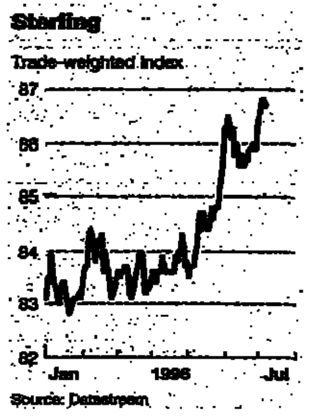
And traders insisted that the main trigger for any fresh interest rate assumptions or currency movements was likely to come today, with the release of the Treasury's summer economic forecast.

This is expected to show that the government now expects borrowing to be higher than previously forecast, while growth this year will be a little weaker.

■ Elsewhere, trading in Continental European currencies was shaped by reaction to comments from Mr Hans Tietmeyer, Bundesbank president at the end of last week.

Sterling

Trade-weighted index



Source: Datastream

In these he indicated that he did not see any grounds for cutting German interest rates in the current economic climate.

These comments pushed the D-Mark noteably higher during the course of the day, as traders contemplated the possibility that the next move in German interest rates would be up, rather than down.

In the European crosses, the German D-Mark closed at FFr3.385 against the French franc compared with FFr3.380 the previous week.

It closed against the Italian lira at L1005, compared to the previous close of L1003.

Meanwhile, against the peseta it ended the day at Pta84.04, compared to a previous close of Pta84.05.

■ Against the dollar, by contrast, the D-Mark ended at DM1.528, unchanged from the level it settled at during Friday's European trade.

This flat position largely reflected the fact that the dollar - like the D-Mark - enjoyed a wave of positive sentiment during the day, as dealers began to consider the next round of interest rate rises.

This swing had been triggered on Friday by better than expected jobless data. These figures, coupled with signs of strengthening wage demands, triggered fears that the economy may face a risk of overheating.

The dollar strengthened in late US trading on Friday, and this bullish tone was maintained during the opening hours of European trade.

However, profit taking pushed the dollar back during the course of yesterday afternoon. And market observers warned that the bullish tone to the US currency was unlikely to provoke a dramatic strengthening while uncertainty remained about when US rates would rise.

"There is quite a bit of trepidation in the market as to the precise timing of a U.S. interest rate hike," said Mr Stuart Thomson, chief economist at Nikko Europe.

■ Pound in New York

Jul 8	—Latest—	— Prev. close —
£ spot	1.5530	1.5570
1 mth	1.5527	1.5565
3 mth	1.5529	1.5557
1 yr	1.5575	1.5590

■ OTHER CURRENCIES

Jul 8	£	$
Czech Rp	42.4995 - 42.5436	27.3480 - 27.3680
Hungary	233.939 - 234.082	150.540 - 150.590
Iran	4663.50 - 4662.00	3000.00 - 3000.00
Kuwait	0.4660 - 0.4670	0.3000 - 0.3004
Poland	4.2362 - 4.2437	2.7260 - 2.7280
Russia	7961.14 - 7968.37	5123.00 - 5126.00
U.A.E.	5.7075 - 5.7098	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jul 8		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.7118	-0.0106	033 - 183	16.7410	16.6876	16.6606	2.2	16.6056	2.5	-	-	104.9
Belgium	(BFr)	48.8860	-0.0357	733 - 046	49.1000	48.8500	48.794	2.3	48.604	2.3	47.814	2.2	106.4
Denmark	(DKr)	9.1491	-0.0035	453 - 529	9.1886	9.1387	9.1354	1.8	9.1151	1.5	9.0072	1.6	107.3
Finland	(FM)	7.2469	-0.0123	389 - 489	7.2600	7.2120	7.2366	0.7	7.2304	0.7	-	-	83.7
France	(FFr)	8.0386	+0.0023	355 - 407	8.0458	8.0246	8.0264	1.8	8.0037	1.7	7.9103	1.6	109.0
Germany	(DM)	2.3748	-0.0015	737 - 754	2.3796	2.3708	2.3702	2.2	2.3611	2.3	2.3224	2.2	108.2
Greece	(Dr)	372.911	-0.002	774 - 049	373.146	372.318	-	-	-	-	-	-	67.6
Ireland	(I£)	0.9748	-0.0002	740 - 752	0.9763	0.9731	0.9741	0.8	0.9729	0.7	0.9684	0.6	99.9
Italy	(L)	2385.11	-6.82	994 - 027	2390.35	2379.75	2393.68	-2.4	2403.51	-2.6	2436.01	-2.0	76.6
Luxembourg	(LFr)	48.8860	-0.0057	733 - 046	49.1000	48.8500	48.794	2.3	48.604	2.3	47.814	2.2	106.4
Netherlands	(Fl)	2.6648	-0.0007	636 - 660	2.6744	2.6613	2.6587	2.7	2.6467	2.7	2.599	2.5	105.4
Norway	(NKr)	10.1432	-0.0066	357 - 506	10.1823	10.1251	10.1347	1.0	10.1177	1.0	10.0342	1.1	98.5
Portugal	(Es)	244.111	+0.081	924 - 228	244.447	243.775	244.536	-2.1	245.441	-2.2	-	-	94.6
Spain	(Pta)	199.566	-0.154	456 - 676	200.176	199.390	199.829	-1.6	200.341	-1.6	201.741	-1.1	80.4
Sweden	(SKr)	10.4084	+0.0022	990 - 178	10.4180	10.3663	10.4087	0.0	10.4083	0.0	-	-	89.7
Switzerland	(SFr)	1.9635	+0.0014	624 - 646	1.9659	1.9592	1.9585	3.1	1.9477	3.2	1.8995	3.3	110.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.7
Ecu	-	1.2537	+0.0014	531 - 542	1.2543	1.2509	1.2524	1.2	1.2494	1.4	1.2361	1.4	-
SDR†	-	1.07097	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5521	-0.0008	517 - 525	1.5550	1.5509	-	-	-	-	-	-	-
Brazil	(R$)	1.5612	-0.0009	607 - 617	1.5622	1.5583	-	-	-	-	-	-	-
Canada	(C$)	2.1294	+0.0012	287 - 301	2.1320	2.1238	2.1287	0.4	2.125	0.6	2.117	0.6	84.2
Mexico	(New Peso)	11.9141	+0.049	083 - 199	11.9199	11.8617	-	-	-	-	-	-	-
USA	($)	1.5543	-0.0008	540 - 545	1.5580	1.5518	1.554	0.2	1.5539	0.1	1.5582	-0.3	97.7
Pacific/Middle East/Africa													
Australia	(A$)	1.9574	-0.0079	564 - 583	1.9595	1.9511	1.96	-1.8	1.965	-1.6	1.9903	-1.7	94.4
Hong Kong	(HK$)	12.0315	-0.0062	287 - 342	12.0445	12.0137	12.0234	0.8	12.0118	0.7	11.992	0.3	-
India	(Rs)	54.7874	+0.3605	677 - 070	55.1070	54.4310	-	-	-	-	-	-	-
Israel	(Shk)	4.9435	-0.023	400 - 469	4.9578	4.9400	-	-	-	-	-	-	-
Japan	(Y)	172.250	-0.182	166 - 332	172.840	172.040	171.525	5.1	170.035	5.1	163.62	5.0	132.0
Malaysia	(M$)	3.8755	+0.0023	741 - 768	3.8788	3.8705	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2560	-0.01	545 - 575	2.2619	2.2542	2.261	-2.7	2.2704	-2.6	2.3043	-2.1	108.9
Philippines	(Peso)	40.6981	-0.0209	371 - 590	40.7600	40.6364	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8288	-0.0031	281 - 305	5.8356	5.8202	-	-	-	-	-	-	-
Singapore	(S$)	2.1985	-0.0004	974 - 996	2.1997	2.1963	-	-	-	-	-	-	-
South Africa	(R)	6.7423	-0.0012	381 - 465	6.7548	6.7239	-	-	-	-	-	-	-
South Korea	(Won)	1265.24	+0.21	480 - 567	1266.16	1263.48	-	-	-	-	-	-	-
Taiwan	(T$)	42.9207	+0.051	127 - 286	43.0433	42.7980	-	-	-	-	-	-	-
Thailand	(Bt)	39.5324	+0.0089	182 - 465	39.5590	39.4690	-	-	-	-	-	-	-

† Rates for Jul 5. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7524	-0.0012	499 - 548	10.7760	10.7400	10.7329	2.2	10.6909	2.3	10.5074	2.3	104.6
Belgium	(BFr)	31.4550	+0.0125	500 - 600	31.5840	31.4250	31.4	2.1	31.285	2.2	30.745	2.3	108.0
Denmark	(DKr)	5.8865	+0.0009	850 - 880	5.8985	5.8850	5.879	1.5	5.862	1.7	5.793	1.6	108.5
Finland	(FM)	4.6601	-0.0055	551 - 651	4.6739	4.6425	4.6636	1.7	4.6418	1.6	4.5981	1.4	82.9
France	(FFr)	5.1720	+0.008	715 - 725	5.1785	5.1630	5.165	1.6	5.1508	1.6	5.083	1.7	108.5
Germany	(DM)	1.5279	-0.0002	275 - 281	1.5312	1.5261	1.5253	2.0	1.5195	2.2	1.4913	2.4	107.4
Greece	(Dr)	239.930	+0.125	880 - 980	241.040	239.610	241.605	-8.4	244.555	-8.4	258.93	-7.9	67.4
Ireland	(I£)	1.5948	-0.0006	940 - 955	1.5975	1.5919	1.5934	-0.4	1.5962	-0.4	1.5877	0.4	-
Italy	(L)	1536.50	+4.4	600 - 700	1538.70	1530.80	1541.25	-3.7	1549.4	-3.4	1572.15	-2.3	76.6
Luxembourg	(LFr)	31.4550	+0.0125	500 - 600	31.5840	31.4250	31.402	2.0	31.2955	2.0	30.815	2.0	108.0
Netherlands	(Fl)	1.7145	+0.0004	140 - 150	1.7222	1.7125	1.7111	2.3	1.704	2.4	1.6723	2.5	105.9
Norway	(NKr)	6.5261	+0.0095	223 - 298	6.5575	6.5095	6.5231	0.5	6.5176	0.5	6.4811	0.7	97.8
Portugal	(Es)	157.060	+0.12	010 - 110	157.330	156.940	157.375	-2.4	157.965	-2.3	160.11	-1.9	94.7
Spain	(Pta)	128.400	-0.02	350 - 450	128.880	128.280	128.65	-2.3	129.09	-2.1	130.62	-1.7	80.1
Sweden	(SKr)	6.6967	+0.0241	917 - 017	6.7045	6.6698	6.7077	-2.0	6.7262	-1.7	6.7572	-1.1	89.5
Switzerland	(SFr)	1.2633	+0.0014	628 - 638	1.2683	1.2610	1.2598	3.4	1.2523	3.5	1.2189	3.5	109.8
UK	(£)	1.5543	-0.0008	540 - 545	1.5580	1.5518	1.554	0.2	1.5539	0.1	1.5582	-0.3	86.5
Ecu	-	1.2398	-0.002	394 - 401	1.2426	1.2365	1.2406	-0.7	1.2422	-0.8	1.251	-0.9	-
SDR†	-	0.69403	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9986	-	985 - 987	1.0002	0.9985	-	-	-	-	-	-	-
Brazil	(R$)	1.0045	-0.0001	043 - 046	1.0046	1.0043	-	-	-	-	-	-	-
Canada	(C$)	1.3701	+0.0016	698 - 703	1.3713	1.3685	1.37	0.1	1.3702	0.0	1.373	-0.2	83.7
Mexico	(New Peso)	7.6655	+0.0355	630 - 680	7.6720	7.6630	7.827	-25.3	8.012	-18.1	9.7755	-27.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.5
Pacific/Middle East/Africa													
Australia	(A$)	1.2593	-0.0044	590 - 596	1.2600	1.2573	1.2613	-1.9	1.2648	-1.7	1.2835	-1.9	95.9
Hong Kong	(HK$)	7.7410	-	405 - 415	7.7415	7.7405	7.7417	-0.1	7.7435	-0.1	7.7705	-0.4	-
India	(Rs)	35.2500	+0.25	000 - 500	35.4500	35.0500	35.4	-5.1	35.705	-5.2	37.175	-5.5	-
Israel	(Shk)	3.1805	-0.0132	789 - 823	3.1949	3.1790	-	-	-	-	-	-	-
Japan	(Y)	110.825	-0.08	790 - 860	111.190	110.750	110.36	4.8	109.48	4.9	105.74	4.6	132.5
Malaysia	(M$)	2.4935	+0.0025	930 - 940	2.4945	2.4910	2.4944	-0.4	2.5005	-1.1	2.524	-1.2	-
New Zealand	(NZ$)	1.4514	-0.0057	507 - 522	1.4537	1.4507	1.4545	-2.6	1.4603	-2.5	1.4849	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 507	3.7507	3.7503	3.751	-0.1	3.7517	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4145	+0.0005	140 - 150	1.4150	1.4140	1.411	3.0	1.405	2.7	1.3795	2.5	-
South Africa	(R)	4.3390	+0.0015	380 - 400	4.3435	4.3310	4.3855	-13.1	4.4755	-12.7	4.813	-10.9	-
South Korea	(Won)	814.050	+0.55	900 - 200	814.500	813.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.6150	+0.047	500 - 800	27.6800	27.5400	27.62	-0.2	27.625	-0.1	-	-	-
Thailand	(Bt)	25.4350	+0.0175	300 - 400	25.4450	25.4270	25.5337	-4.7	25.7375	-4.8	26.62	-4.7	-

† SDR rate per $ for Jul 5. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 5: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

July 8	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅜	3¼	3⅜	3½	3⅞	7.00	2.50	-
week ago	3⅜	3¼	3⅜	3⅞	3⅞	7.00	2.50	-
France	3⅞	3⅞	3⅞	4	4¼	3.60	-	5.60
week ago	3¾	3⅞	3⅞	3⅞	4⅛	3.60	-	5.60
Germany	3⅞	3⅜	3⅞	3⅞	3¾	4.50	2.50	3.30
week ago	3¼	3⅜	3⅜	3⅞	3⅞	4.50	2.50	3.30
Ireland	5¼	5⅜	5⅜	5⅜	5⅞	-	-	6.25
week ago	5⅜	5⅜	5⅜	5⅜	5⅜	-	-	6.25
Italy	9⅛	9	8⅞	8⅞	8⅜	-	9.00	9.30
week ago	9⅛	9	8⅞	8¾	8⅜	-	9.00	9.30
Netherlands	2⅞	2⅞	2⅞	3⅛	3⅛	-	3.00	3.30
week ago	2¾	2⅞	2⅞	3⅛	3⅛	-	3.00	3.30
Switzerland	2¼	2⅞	2⅞	2⅞	2⅞	5.00	1.50	-
week ago	2⅝	2⅞	2⅜	2⅜	2⅞	5.00	1.50	-
US	5⅜	5⅞	5⅜	5⅞	6⅛	-	5.00	-
week ago	5⅜	5⅞	5⅞	5¾	5⅞	-	5.00	-
Japan	⅞	⅜	⅜	⅜	1⅛	-	0.50	-
week ago	⅜	⅜	½	⅞	⅞	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5½	5⅞	5⅞	6⅜	-	-	-
week ago	-	5½	5⅜	5¾	6⅜	-	-	-
US Dollar CDs	-	5.20	5.35	5.53	5.93	-	-	-
week ago	-	5.20	5.31	5.44	5.75	-	-	-
ECU Linked Ds	-	4⅜	4⅞	4⅜	4⅞	-	-	-
week ago	-	4⅜	4⅞	4⅞	4⅜	-	-	-
SDR Linked Ds	-	3⅜	3⅞	3⅞	3⅞	-	-	-
week ago	-	3⅜	3⅞	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 8	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3⅞	3¼ - 3⅞	3⅜ - 3⅞	3⅜ - 3⅞	3½ - 3⅞	3¾ - 3⅞
Danish Krone	3⅜ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3¾	4⅛ - 3⅞	4⅞ - 4¾
D-Mark	3⅜ - 3¼	3⅜ - 3¼	3⅞ - 3⅞	3⅞ - 3⅜	3½ - 3⅜	3¾ - 3⅝
Dutch Guilder	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞	3 - 2⅞	3⅛ - 3⅛	3⅞ - 3⅞
French Franc	3⅞ - 3⅝	3¾ - 3⅞	3⅞ - 3¾	4 - 3⅞	4⅛ - 3⅞	4⅜ - 4⅜
Portuguese Esc.	7⅞ - 7¾	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7¾	7⅞ - 7⅞
Spanish Peseta	7½ - 7⅜	7⅜ - 7⅞	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7⅞	7¾ - 7⅞
Sterling	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5⅞	5¾ - 5⅞	5⅞ - 5⅞	6⅛ - 6
Swiss Franc	2⅞ - 2⅞	2⅞ - 2⅞	2¾ - 2⅝	2¾ - 2⅝	2⅞ - 2⅞	3 - 2⅞
Can. Dollar	4⅞ - 4½	4¾ - 4⅞	4¾ - 4⅝	4⅞ - 4¾	5⅛ - 4⅞	5⅞ - 5⅞
US Dollar	5⅜ - 5⅜	5¼ - 5	5⅞ - 5⅜	5⅞ - 5½	5⅞ - 5⅞	6⅜ - 6⅜
Italian Lira	9⅜ - 9⅜	9¼ - 9⅛	9⅜ - 8⅞	8¾ - 8⅝	8⅞ - 8⅞	8⅞ - 8¾
Yen	⅞ - ⅞	½ - ⅜	½ - ⅜	⅞ - ⅞	⅞ - ⅞	1⅛ - 1⅛
Asian $Sing	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.98	95.93	-0.07	95.98	95.91	19,675	73,713
Dec	95.77	95.73	-0.07	95.78	95.70	12,840	44,714
Mar	95.53	95.50	-0.06	95.54	95.46	585	25,449

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.51	96.52	-0.01	96.53	96.49	18263	196984
Dec	96.28	96.28	-0.01	96.29	96.23	26666	200106
Mar	95.89	95.92	-0.01	95.94	95.87	21265	188472
Jun	95.48	95.53	-0.01	95.55	95.46	16183	113897

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.79	91.82	-0.01	91.87	91.68	18759	63843
Dec	92.19	92.23	-0.03	92.25	92.14	5186	35429
Mar	92.34	92.36	-0.04	92.38	92.29	2261	20953
Jun	92.29	92.30	-0.04	92.30	92.22	1215	11389

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.25	97.21	-0.07	97.25	97.18	8032	36856
Dec	97.03	97.02	-0.09	97.08	97.01	3427	21255
Mar	96.84	96.82	-0.07	96.85	96.81	563	9294
Jun	96.58	96.57	-0.06	96.60	96.56	286	1310

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.10	99.11	+0.01	99.11	99.09	211	na
Dec	98.71	98.72	+0.02	98.72	98.71	79	na
Mar	98.40	98.41	+0.01	98.40	98.40	444	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.53	95.53	-0.03	95.53	95.51	500	7232
Dec	95.37	95.37	-0.02	95.37	95.35	433	4844
Mar	95.10	95.10	-0.02	95.11	95.08	121	3001
Jun		94.80	-0.03			0	2357

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 8		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100.	18.71	16.44	4.858	1.994	4884	5.451	20.74	499.3	408.3	21.29	4.017	2.045	4.355	3.179	352.4	2.565
Denmark	(DKr)	53.44	10	8.787	2.596	1.066	2610	2.913	11.08	266.8	218.2	11.38	2.147	1.093	2.327	1.699	188.3	1.371
France	(FFr)	60.82	11.38	10	2.954	1.213	2971	3.315	12.61	303.6	248.3	12.95	2.443	1.244	2.648	1.933	214.3	1.560
Germany	(DM)	20.59	3.852	3.385	1	0.411	1005	1.122	4.269	102.8	84.04	4.383	0.827	0.421	0.896	0.654	72.55	0.528
Ireland	(I£)	50.14	9.384	8.245	2.436	1	2449	2.733	10.40	250.4	204.7	10.68	2.014	1.026	2.184	1.594	176.7	1.286
Italy	(L)	2.047	0.383	0.337	0.099	0.041	100.	0.112	0.425	10.22	8.359	0.436	0.082	0.042	0.089	0.065	7.215	0.053
Netherlands	(Fl)	18.35	3.433	3.017	0.891	0.366	896.1	1	3.805	91.59	74.90	3.906	0.737	0.375	0.799	0.583	64.65	0.471
Norway	(NKr)	48.21	9.023	7.928	2.342	0.962	2355	2.628	10	240.7	196.8	10.27	1.937	0.986	2.100	1.533	169.9	1.237
Portugal	(Es)	20.03	3.748	3.293	0.973	0.399	978.3	1.092	4.154	100.	81.77	4.265	0.805	0.410	0.872	0.637	70.58	0.514
Spain	(Pta)	24.49	4.584	4.028	1.190	0.488	1196	1.335	5.080	122.3	100.	5.215	0.984	0.501	1.067	0.778	86.32	0.628
Sweden	(SKr)	46.96	8.789	7.722	2.281	0.937	2294	2.560	9.741	234.5	191.7	10	1.887	0.961	2.045	1.493	165.5	1.205
Switzerland	(SFr)	24.89	4.658	4.093	1.209	0.496	1216	1.357	5.163	124.3	101.6	5.300	1	0.509	1.084	0.791	87.73	0.638
UK	(£)	48.89	9.149	8.039	2.375	0.975	2388	2.665	10.14	244.1	199.6	10.41	1.964	1	2.129	1.554	172.3	1.254
Canada	(C$)	22.96	4.297	3.776	1.116	0.458	1122	1.252	4.763	114.7	93.75	4.890	0.922	0.470	1	0.730	80.93	0.589
US	($)	31.46	5.887	5.173	1.528	0.627	1537	1.715	6.525	157.1	128.4	6.699	1.264	0.644	1.370	1	110.9	0.807
Japan	(Y)	28.37	5.310	4.666	1.378	0.566	1386	1.547	5.885	141.7	115.8	6.042	1.140	0.580	1.236	0.902	100.	0.728
Ecu		38.99	7.296	6.411	1.894	0.778	1904	2.125	8.086	194.7	159.2	8.301	1.566	0.797	1.698	1.239	137.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6569	0.6578	+0.0007	0.6578	0.6558	21,605	56,479
Dec	0.6613	0.6611	-	0.6613	0.6611	64	1,995
Mar	-	0.6654	-	-	-	265	288

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7967	0.7969	+0.0004	0.7972	0.7943	14,776	37,635
Dec	0.8025	0.8028	-	0.8030	0.8025	56	1,185
Mar	-	0.8090	-	-	-	9	58

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.9106	0.9121	-0.0003	0.9121	0.9090	12,603	79,369
Dec	0.9230	0.9230	-0.0011	0.9232	0.9225	81	3,743
Mar	-	0.9358	-	-	-	7	136

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5562	1.5536	-0.0028	1.5568	1.5514	11,917	53,054
Dec	-	1.5540	-0.0038	-	1.5540	6	1,085
Mar	-	1.5560	-0.0034	-	1.5580	1	6

UK INTEREST RATES

LONDON MONEY RATES

Jul 8	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 5	5⅝ - 5½	5¾ - 5⅝	5⅞ - 5¾	6 - 5⅞	6¼ - 6
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Jul 5, 5.4617pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 28, 1996. Agreed rate for period Jul 24, 1996 to Aug 25, 1996, Schemes II & III 7.32pc. Reference rate for period Jun 1, 1996 to Jun 28, 1996, Schemes IV & V 5.866pc. Finance House Base Rate 6pc from Jul 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.24	94.27	+0.02	94.27	94.24	10417	90605
Dec	94.07	94.14	+0.04	94.15	94.07	17052	82529
Mar	93.75	93.80	+0.03	93.81	93.74	8743	59953
Jun	93.29	93.33	+0.02	93.34	93.28	4355	32074
Sep	92.88	92.92	+0.01	92.95	92.87	2081	26284

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9425	0.10	0.14	0.14	0.08	0.25	0.59
9450	0.02	0.05	0.08	0.25	0.42	0.78
9475	0	0.02	0.04	0.48	0.63	0.99

Est. vol. total, Calls 3170 Puts 4752. Previous day's open int., Calls 122093 Puts 89795

EMS EUROPEAN CURRENCY UNIT RATES

Jul 8	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.795190	-0.000959	-0.76	2.09	5
Spain	162.493	161.326	+0.154	-0.72	2.01	5
Netherlands	2.15214	2.15005	-0.00117	-0.10	1.38	1
Belgium	39.3960	39.4600	-0.0087	0.16	1.12	-1
Germany	1.91007	1.91656	-0.00097	0.34	0.94	-3
Austria	13.4383	13.4861	-0.007	0.37	0.91	-3
Portugal	195.792	196.682	-0.009	0.60	0.69	-6
France	6.40608	6.48089	+0.00031	1.26	0.03	-11
Denmark	7.28580	7.37917	-0.00083	1.28	0.00	-9
NON ERM MEMBERS						
Greece	292.867	301.098	+0.123	2.81	-1.49	-
Italy	2106.15	1928.07	+4.12	-8.46	10.84	-
UK	0.786652	0.808861	-0.000698	2.57	-1.26	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. (17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.520	4.07	4.20	4.39	0.03	0.11	0.32
1.530	3.08	3.34	3.59	0.05	0.25	0.52
1.540	2.17	2.56	2.87	0.10	0.45	0.80
1.550	1.32	1.92	2.27	0.19	0.77	1.13
1.560	0.64	1.33	1.72	0.45	1.18	1.58

Previous day's vol., Calls 5,880 Puts 7,177 . Prev. day's open int., Calls 165,873 Puts 132,586

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.57	94.56	-0.04	94.57	94.52	157,381	409,444
Dec	93.97	93.92	-0.03	93.98	93.84	235,048	440,058
Mar	93.45	93.45	-0.02	93.46	93.41	184,984	291,423

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.57	94.57	-0.03	94.58	94.55	554	6,033
Dec	94.38	94.27	-0.02	94.27	94.26	79	1,624
Mar	-	94.04	-0.06	-	94.04	1	75

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9650	0.04	0.08	0.10	0.08	0.02	0.05	0.08	0.30
9675	0	0.01	0.03	0.03	0.23	0.24	0.26	0.50
9700	0	0	0.01	0.01	0.48	0.49	0.49	0.73

Est. vol. total, Calls 6575 Puts 4647. Previous day's open int., Calls 281658 Puts 308102

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9725	0.12	0.13	0.15	0.18	0.36	0.58
9750	0.04	0.05	0.05	0.35	0.53	0.78

Est. vol. total, Calls 29 Puts 0. Previous day's open int., Calls 5125 Puts 4826

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9175	0.26	0.67	0.86	0.19	0.19	0.25
9200	0.14	0.51	0.69	0.32	0.28	0.33
9225	0.07	0.36	0.55	0.50	0.38	0.41

Est. vol. total, Calls 1503 Puts 103. Previous day's open int., Calls 36392 Puts 19297

BASE LENDING RATES

	%
Adam & Company	5.75
Allied Trust Bank	5.75
AIB Bank	5.75
●Henry Ansbacher	5.75
Bank of Baroda	5.75
Banco Bilbao Vizcaya	5.75
Bank of Cyprus	5.75
Bank of Ireland	5.75
Bank of India	5.75
Bank of Scotland	5.75
Barclays Bank	5.75
Brit Bk of Mid East	5.75
●Brown Shipley & Co Ltd	5.75
Citibank NA	5.75
Clydesdale Bank	5.75
The Co-operative Bank	5.75
Coutts & Co	5.75
Credit Lyonnais	5.75
Cyprus Popular Bank	5.75
Duncan Lawrie	5.75
Exeter Bank Limited	6.75
Financial & Gen Bank	7.00
●Robert Fleming & Co	5.75
Girobank	5.75
●Guinness Mahon	5.75
Habib Bank AG Zurich	5.75
●Hambros Bank	5.75
Heritable & Gen Inv Bk	5.75
●Hill Samuel	5.75
C. Hoare & Co	5.75
Hongkong & Shanghai	5.75
Julian Hodge Bank	5.75
●Leopold Joseph & Sons	5.75
Lloyds Bank	5.75
Meghraj Bank Ltd	5.75
Midland Bank	5.75
* Mount Credit Corp	6.00
NatWestminster	5.75
●Rea Brothers	5.75
Royal Bk of Scotland	5.75
●Singer & Friedlander	5.75
●Smith & Williamson Secs.	5.75
TSB	5.75
United Bank of Kuwait	5.75
Unity Trust Bank Plc	5.75
Western Trust	5.75
Whiteaway Laidlaw	5.75
Yorkshire Bank	5.75

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COMMODITIES AND AGRICULTURE

'Just in time' oil buying continues

By Robert Corzine

US oil refiners appear to be maintaining the "just-in-time" stock management techniques that helped to unsettle world oil markets during the past northern hemisphere winter.

The latest monthly oil market report from the International Energy Agency said there was a surge in US oil imports in May, with crude oil stocks reaching their highest end-of-month level in six months.

But the Paris-based agency, which monitors oil markets on behalf of the main industrialised countries, noted that even with a buying surge US stock levels only matched the historically low levels reported at the end of 1995.

"There are no indications that the US industry will not continue the 'just in time' inventory policy that began last year," it concluded.

Traders attribute much of the oil price volatility last winter to the "just in time" policy. Although it has cut the high cost of storing crude oil, it caused sharp price spikes as refiners scrambled to secure extra crude in response to supply disruptions or sudden periods of high demand, usually as a result of bad weather.

Oil stocks held in May by OECD members rose by an average of 1.2m barrels a day, to end the month 92m barrels lower than a year ago. That is equivalent to 2.3 days of consumption. But the IEA said total industry stocks of crude oil and petrol at the end of May were in line with previous years. It predicted that the average stock build in the June-December period would need to be just 150,000 b/d to return to year-earlier levels by the end of December.

The report said supply rose at an "unusually" fast rate in June to 72m b/d, compared with estimated global demand for the year of 71.7m b/d.

The agency has also maintained its relatively bullish outlook for production in countries outside the Organisation of Petroleum Exporting Countries. Although it has made some modifications to its last forecast, the IEA still expects "strong" output growth in non-Opec countries in the second half of 1996, with the North Sea accounting for more than 500,000b/d of the projected 1.4m b/d increase over the first half of the year.

Peruvian copper giant to boost output and cut costs

Sally Bowen reports on an ambitious plan that will increase the country's output by 5 per cent

Shrugging off concerns about the recent turmoil in world copper markets, US-owned Southern Peru Copper Corporation – far and away the country's largest copper producer – is planning a major expansion of its Peruvian operations on all fronts from extraction through to refining.

This could mean stepping up output by as much as 70 per cent to over 500,000 short tons (453,000 tonnes) a year, according to Southern Peru's CEO Mr Charles Preble.

Mr Preble was speaking at last month's ceremonies to mark the official inauguration of a new solvent extraction/electrowinning (SX-EW) plant at Toquepala, the older of Southern's two Peruvian mines. It processes both low grade sulphides from Toquepala and oxides from Cuajone.

The SX-EW plant, which cost US$103m, has been operating since late last year. Designed to produce 107 tons a day of 99.999 per cent pure copper cathodes, the plant is already well above those levels. June production was running at around 120 tons a day with no reduction in quality and purity of the end-product, mine engineers said.

Even assuming Toquepala's new plant produces only the 40,000 tons a year originally projected, it will bump up Southern's total output by 15 per cent. That is equivalent to a 5 per cent increase in national copper output.

The plant also makes a significant impact on reducing Southern's overall costs. It utilises low grade material mined over the past 35 years and stockpiled as waste rather than being sent to the concentrator plant. Leaching, however, has revolutionised the economics of processing the ore.

Using sulphuric acid to activate the naturally occurring bacteria in the mineral dumps, Southern is now able to extract some 36 per cent of the copper at a cost of 30 cents a pound.

This reduces the average cost of Southern's entire Peruvian operation to a satisfactory 53 cents a pound (compared with $1.03 in 1990 and 67 cents in 1994).

Designed and built by Bechtel of San Francisco and Peru's Cosapi with financing from the Andean Development Corporation (CAF), the Toquepala SX-EW plant is the most recent in a series of Peruvian investments by Southern which total $445m since 1991. This is substantially in excess of the $300m the Asarco-controlled company committed to spend under a 1991 agreement with the Peruvian government.

Investments include the $103m sulphuric acid partial capture plant operational since late 1995 (and which will be expanded this year at an additional cost of $36m); new tailings disposal facilities costing some $41m; more than $100m spent on modernising equipment at the two mines; and expenditure on drinking water and sewerage systems in the town of Ilo where many Southern workers live.

Southern also acquired for $65m at auction in April 1994 the former state-owned refinery at Ilo, originally built to treat blister copper from Southern's nearby smelter under a tolling agreement. This has permitted rationalisation of operations, reductions in costs and a general increase in efficiency. So far, Southern has met about 70 per cent of a total $90.2m investment commitment for upgrading the refinery.

No details are yet available of the substantial expansion projected in Southern's Peruvian operations. But it now seems certain that a new smelter for Ilo will be a priority.

Ilo residents have complained for decades about the discomfort and alleged health problems caused by emissions containing sulphur dioxide from the smelter chimneys. Last year, some townspeople attempted to sue Southern for damages in a Texas court.

Even though the case was dismissed, company officials now tacitly admit that, at least under certain climatic conditions, a pollution problem exists. A $1m study carried out between February and April by TRC North America Weather Consultants is part of some $2.3m to be spent by the company this year on a so-called "intermittent control programme" (ICP).

This has resulted in periodic shutdowns at the smelter which cost the company some 7.16m lb in lost blister copper production between December and June.

The ICP seems to be a merely palliative measure and, Southern officials admit, a transitional one. Building a new and larger smelter capable of handling an extra 70 per cent in minerals output is likely to leave Southern with little change out of $1bn, if the most recently constructed smelter – Kennecott's in Utah – is used as a yardstick.

Higher output from the Toquepala and Cuajone mines – where Southern recently announced a 69 per cent increase in reserves – will also involve expanding capacity at the Ilo refinery. Under Southern's management, output has already been pushed up some 5 per cent to 220,000 short tons a year, but the new studies, to be completed by year's end, will call for much grander schemes.

According to Mr Preble, Peru now offers the sort of political and juridical framework which permit the assumption of medium and long-terms investment commitments. "We have full faith in Peru's economic and social development," he told guests at last week's inaugural ceremony.

Southern's first quarter sales totalled $196.4m (marginally lower than in the same period last year) while net earnings were $49.1m, up from $44.4m in first quarter 1995.

Russia's Norilsk Nickel metals group would delay the sale of copper produced in June until world prices rose, a company official said yesterday, reports Reuters from Moscow.

"We are waiting for the market to stabilise," said Mr Sergei Vetchinin. "Our specialists are reviewing contracts that were not drawn up properly in that they did not have standard hedging functions." Some June copper had not been indexed to specific market prices when it was produced, he said.

The sales hold-off was attributed directly to the crash in London Metal Exchange copper prices following Sumitomo Corporation of Japan's recent announcement of heavy copper trading losses.

Norilsk, Russia's largest copper refiner and concentrate producer, exported about 115,500 tonnes of copper in 1995 from its total copper output that year of about 313,800 tonnes, according to company and state metallurgy committee figures.

Simex aims to revive its fuel oil futures

The Singapore International Monetary Exchange (Simex) is drafting fresh proposals to revive its fuel oil contract following meetings with oil traders and major oil companies, industry officials said yesterday, reports Reuters from Singapore.

Simex representatives met major oil companies, oil traders and bunker dealers in late June, the officials said.

The exchange planned to change the grade of fuel oil listed on the exchange, they added. The new contract would cover 3.5 per cent sulphur fuel oil, in line with the bulk of fuel traded on Singapore's cash market, instead of the previous 4 per cent.

In addition, Simex planned to adopt a narrower loading-date range of days 11-20 each month for deliveries at nominated ports against the contract, compared with the previous 5-25, the officials said.

But Simex had yet to decide on a proposal for a procedure to determine the settlement price at expiry.

Once the draft for the new specifications is completed, it will be sent to the Monetary Authority of Singapore for final approval.

Traders cautious on Chinese rice situation

China might have to buy buy rice on the international market as a result of floods that have ravaged its southern provinces, some regional traders said yesterday, reports Reuters from Hongkong. But others warned that it was too early to tell how extensive any damage to the rice crop had been and pointed out that domestic spot prices were falling, suggesting that rice supplies were still perceived to be sufficient.

Any Chinese imports might drive up international prices, the traders said, but to what extent depended on the quantity that the Beijing authorities actually purchased.

Most of the flood damage has been sustained by rice-growing provinces while the main maize, wheat and soyabean farms in the north have been spared.

"We expect [China] to come into the rice market," said a leading rice trader in Bangkok. "They'll be there, but we just don't know the volume of imports yet."

"I think there's likely be some imports. Maybe rice, maybe wheat flour. It will take time to sort everything out," a trader at a major European commodity house in Singapore said.

The floods have hit the provinces of Hubei, Guizhou, Zhejiang, Anhui and Jiangxi, causing more than $2bn of damage and affecting an estimated 700,000 hectares of agricultural land.

"It is going to boost the price of rice, which is already high, but it's not possible to tell yet how much because we do not know the kind of volumes the Chinese will get," the Bangkok trader said.

One Singapore-based trader was still more cautious. "This may all just be hype," he said. "The market is more focused on the weather market in the United States. Those [Chinese] regions damaged are mostly rice-growing areas and it may take several weeks before we get a clear picture of the situation."

Another trader raised the possibility that some of the rice crop might be salvaged in some Chinese provinces if the floods receded quickly. "I haven't really seen any impact in the market."

"These floods are south of the Yellow river. That's mostly rice. All of their summer crops like corn [maize] and wheat are doing O.K.," another trader said. "We just have to wait and see until the final report comes in."

China's rice area has risen by almost 1 per cent in 1996 to 8.274m hectares, according to an official survey. Its rice imports between January and April dropped 67 per cent to 250,000 tonnes, while exports jumped 337 per cent to 80,000.

Broker cuts 1996 base metals price forecasts

Billiton Metals has cut its 1996 price forecasts for all base metals except lead, reports Reuters.

In a mid-year round-up of the metals markets, Billiton has lowered its cash copper forecast to a 1996 average of 98 US cents a pound from 105 cents originally. The actual 1995 average was 133.2 cents.

"As this year wears on, and it becomes clear that a substantial surplus is building, we believe that further losses will be recorded," Billiton says in its round-up.

Aluminium prices are also expected to be lower than originally predicted. The market is likely to be vulnerable to copper's movements during the seasonal lull in demand now starting, says Billiton, although it predicts a mild recovery during the final quarter. Cash aluminium prices are now put at an average of 70 cents a pound this year from the original figure of 75 cents and last year's 81.9 cents.

Nickel is forecast to average 360 cents, down from 400 estimated earlier and 374 in 1995, while zinc's forecast is cut to 48 cents from 50 cents and tin's to 290 cents from 300.

The lead forecast is raised to 38 cents from 34 cents originally and 28.6 cents in 1995.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1467-68	1504-5
Previous	1469.5-69.5	1504-05
High/low	1467	1511/1502
AM Official	1467-68	1502-3
Kerb close		1503-4
Open int.	237,273	
Total daily turnover	37,630	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1245-50	1280-85
Previous	1250-55	1285-90
High/low		1290/1280
AM Official	1245-50	1283-84
Kerb close		1278-83
Open int	5,482	
Total daily turnover	592	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	788-89	793-94
Previous	785-6	792-3
High/low	784	796/788
AM Official	783.5-84.0	790-90.5
Kerb close		794-5
Open int.	32,847	
Total daily turnover	4,586	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7520-30	7630-40
Previous	7550-55	7654-55
High/low	7540/7530	7700/7600
AM Official	7525-30	7650-52
Kerb close		7615-20
Open int	41,971	
Total daily turnover	9,253	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6355-60	6396-98
Previous	6375-85	6410-20
High/low		6415/6380
AM Official	6340-50	6385-90
Kerb close		6395-400
Open int	10,248	
Total daily turnover	3,989	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1004.5-5.5	1032-33
Previous	1005.5-06.5	1032-33
High/low	1004.5/1003.5	1035/1030
AM Official	1004-4.5	1030-30.5
Kerb close		1035-36
Open int	69,760	
Total daily turnover	12,348	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1993-99	1935-36
Previous	1963-65	1907-08
High/low		1940/1923
AM Official	1930-83	1929-30
Kerb close		1932-33
Open int	199,533	
Total daily turnover	47,441	

■ LME AM Official £/$ rate: 1.5536
LME Closing £/$ rate: 1.5545

Spot: 1.5530 3 mths: 1.5527 6 mths: 1.5540 9 mths: 1.5557

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	91.70	+2.55	93.00	91.20	863	4,760
Aug	91.20	+2.80	91.30	90.70	95	2,135
Sep	90.55	+2.75	91.55	88.00	4,162	19,750
Oct	90.15	+2.55	-	-	84	1,267
Nov	89.95	+2.45	-	-	93	1,071
Dec	89.55	+2.10	90.10	89.10	-	12,208
Total					7,472	57,217

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	381.70-382.10		
Opening	382.30-382.70		
Morning fix	382.30	246.248	483.227
Afternoon fix	381.90	245.705	481.614
Day's High	383.00-383.40		
Day's Low	381.50-381.90		
Previous close	381.50-381.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.18	6 months	3.95
2 months	4.14	12 months	3.99
3 months	4.11		

Silver Fix	p/troy oz.	US cts equiv
Spot	329.70	512.00
3 months	333.60	518.20
6 months	337.65	524.80
1 year	345.80	538.50

Gold Coins	$ price	£ equiv.
Krugerrand	382.5-385.5	246-248
Maple Leaf	390.60-393.10	-
New Sovereign	87-90	56-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	381.2	-0.3	-	-	10	10
Aug	382.1	-0.4	385.0	381.5	13,931	87,874
Oct	384.8	-0.3	387.0	384.4	414	7,455
Dec	387.5	-0.2	390.0	386.9	978	40,261
Feb	390.1	-0.1	389.8	389.5	37	8,646
Apr	392.7	+0.1	393.0	393.0	710	5,820
Total					12,586	197,497

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	387.1	-4.7	392.0	388.0	32	891
Oct	391.1	-3.9	395.6	390.0	421	21,010
Jan	393.8	-3.9	397.5	394.0	20	2,571
Apr	396.6	-3.9	403.1	401.0	1	2,289
Jul	398.8	-3.9	401.5	400.1	9	42
Total					1,535	26,803

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	131.20	-4.20	134.50	131.10	454	6,684
Dec	132.20	-4.20	135.50	135.50	2	967
Mar	133.20	-4.20	-	-	-	12
Jun	134.25	-4.20	-	-	-	106
Total					117	7,769

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	501.9	-6.1	510.5	500.0	273	436
Aug	503.8	-6.3	-	-	1	2
Sep	506.7	-6.3	520.0	504.5	8,291	57,666
Dec	514.9	-6.2	524.0	513.0	911	22,184
Mar	523.2	-6.1	532.0	522.5	384	6,478
May	528.5	-6.1	-	-	108	5,500
Total					13,151	98,858

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	21.55	+0.34	21.85	21.25	24,915	92,398
Sep	20.66	+0.28	20.95	20.54	10,954	45,592
Oct	19.96	+0.27	20.13	19.86	3,152	34,522
Nov	19.42	+0.22	19.56	19.37	495	24,461
Dec	19.05	+0.18	19.20	19.00	3,407	31,142
Jan	18.75	+0.14	18.90	18.75	-	22,339
Total					46,672	374,046

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	19.50	-0.24	19.80	19.45	12,084	37,473
Sep	18.92	-0.13	19.19	18.90	10,601	61,567
Oct	18.47	-0.15	18.73	18.47	2,664	23,390
Nov	18.11	-0.14	18.34	18.11	1,004	7,097
Dec	17.90	-0.05	17.97	17.81	1,539	13,562
Jan	17.67	-0.03	17.67	17.67	20	11,262
Total					38,928	170,717

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	55.20	+0.49	55.90	55.05	6,373	33,933
Sep	55.40	+0.51	56.05	55.30	1,260	11,598
Oct	55.80	+0.56	56.20	55.60	249	6,078
Nov	56.10	+0.51	56.50	56.05	474	7,252
Dec	56.40	+0.51	56.90	56.20	1,867	19,422
Jan	56.70	+0.76	56.75	56.30	-	8,368
Total					12,888	100,427

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	175.75	-0.75	177.00	174.75	3,720	11,632
Aug	172.00	-1.00	173.00	171.50	6,318	17,852
Sep	170.50	-0.75	171.25	169.75	1,939	9,566
Oct	170.25	-	170.25	169.00	1,416	3,832
Nov	163.25	-	169.50	168.50	463	1,761
Dec	169.00	-	169.00	168.00	1,020	3,279
Total					15,678	59,985

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	2.790	-0.051	2.920	2.775	11,403	41,747
Sep	2.790	-0.004	2.840	2.770	3,387	22,161
Oct	2.755	+0.001	2.790	2.743	2,325	15,513
Nov	2.790	-0.009	2.780	2.750	681	12,531
Dec	2.775	-0.009	2.800	2.775	636	13,553
Jan	2.765	-0.014	2.795	2.765	575	17,507
Total					28,738	161,342

■ UNLEADED GASOLINE

NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	62.80	+0.33	63.35	62.60	13,272	23,076
Sep	61.25	+0.57	62.10	61.10	4,401	13,353
Oct	58.65	+0.59	58.95	58.25	814	3,652
Nov	56.90	+0.55	56.90	56.70	21	1,666
Dec	55.50	+0.35	55.50	55.40	20	1,485
Jan	54.85	+0.20	54.85	54.52	201	722
Total					18,782	48,074

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	110.10	+0.35	110.25	110.10	19	161
Sep	110.40	-0.10	110.50	110.40	20	402
Nov	112.40	-0.10	112.50	112.40	32	3,001
Jan	114.40	-0.10	114.25	114.25	3	1,214
Mar	116.25	-0.25	116.55	116.50	-	402
May	118.25	-0.25	118.65	118.50	28	170
Total					N/A	N/A

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	474.75	+4.75	478.50	473.00	1,054	4,834
Sep	477.50	+4.00	483.75	474.00	5,148	32,978
Dec	484.25	+1.75	491.00	482.00	5,280	28,496
Mar	482.50	-0.50	491.50	482.00	298	4,151
May	458.00	+1.00	464.00	458.00	21	155
Jul	419.00	-4.00	424.00	418.00	54	1,915
Total					11,822	72,844

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	537.00	+6.00	546.50	525.00	3,936	11,616
Sep	402.00	-0.50	410.00	400.00	10,768	75,142
Dec	350.00	-3.50	360.50	348.75	32,049	176,371
Mar	356.50	-2.25	364.50	356.00	1,875	26,249
May	359.50	-2.00	367.00	359.00	232	5,049
Jul	359.00	-1.50	366.50	359.00	196	6,063
Total					49,369	306,349

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	103.95	-0.05	-	-	-	105
Nov	106.00	+0.10	105.90	105.90	5	786
Jan	107.85	-0.20	-	-	23	197
Mar	109.40	-	-	-	-	46
May	112.15	+0.40	-	-	-	7
Total					N/A	N/A

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	764.25	+1.00	773.00	764.00	3,100	5,630
Aug	762.00	+2.00	770.00	760.00	8,463	30,969
Sep	744.75	+3.50	753.50	744.50	1,589	11,648
Nov	731.50	+4.50	741.00	731.00	27,898	101,370
Jan	739.00	+3.75	749.00	738.50	764	8,158
Mar	746.00	+5.00	754.00	746.00	300	4,434
Total					42,768	171,104

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	24.51	-0.04	24.76	24.50	6,012	3,830
Aug	24.59	-0.07	24.90	24.57	10,228	21,399
Sep	24.80	-0.10	25.10	24.83	764	12,792
Oct	25.02	-0.03	25.29	25.05	466	7,215
Dec	25.35	+0.03	25.63	25.33	6,924	29,524
Jan	25.48	+0.08	25.78	25.55	744	2,646
Total					25,510	81,122

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	241.9	+1.1	242.7	240.6	3,625	8,792
Aug	240.3	+1.4	241.5	238.0	5,326	22,240
Sep	238.3	+1.4	239.8	238.0	1,139	10,531
Oct	234.5	+1.7	236.2	234.0	335	5,911
Dec	232.4	+1.4	234.9	232.3	5,097	24,285
Jan	233.0	+2.1	234.7	233.0	278	2,937
Total					15,838	78,138

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.0	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	120.8	-2.7	124.9	119.0	66	1,307
May	140.0	-	-	-	-	3
Jun	162.5	-	-	-	-	-
Total					N/A	N/A

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1105	-6	1105	1101	11	1,738
Aug	1096	-8	1100	1085	22	654
Sep	1144	-16	1160	1160	21	81
Oct	1213	-2	1215	1213	27	1,452
Jan	1239	-8	1240	1240	1	269
Apr	1255	-3	-	-	-	115
Total					N/A	N/A

	Close	Prev
BFI	N/A	1157

FUTURES DATA

All futures data supplied by CMS

Tea

There was less general demand this week reports the Tea Brokers Association. Landed apart from a few selected brighter East African cams which held firm most other descriptions came to an easier market and lost between 2-8p/kg. Offshore good demand at firm rates. Quotations: best available: 126p/kg, good: 113p/kg, good medium: 108p/kg, medium 85p/kg, low medium: 82p/kg, nom the highest price realised this week was 126p/kg for a Kenya pf.1.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1044	-4	1042	1042	20	746
Sep	1067	-3	1070	1060	386	43,446
Dec	1046	-	1049	1043	112	42,536
Mar	1048	+1	1061	1047	695	34,368
May	1057	+2	1063	1055	49	20,227
Jul	1067	+2	1068	1066	546	10,619
Total					N/A	N/A

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1390	+6	1392	1383	18	184
Sep	1422	+6	1431	1417	2,549	30,968
Dec	1451	+6	1459	1445	766	15,662
Mar	1475	+7	1481	1470	204	14,880
May	1489	+7	1486	1482	1	6,677
Jul	1494	+2	1492	1492	1	5,902
Total					3,538	81,308

■ COCOA (ICCO) (SDR's/tonne)

Jul 5	Price	Jul 3
Daily	n/a	1068.21

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1673	+15	1680	1645	375	1,204
Sep	1665	+26	1680	1629	3,005	16,756
Nov	1622	+21	1635	1595	1,100	4,775
Jan	1594	+19	1615	1569	312	3,046
Mar	1554	+15	1571	1531	232	1,348
May	1549	+8	1560	1564	24	192
Total					N/A	N/A

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	126.15	+2.00	127.25	123.80	213	988
Sep	118.45	+1.95	120.00	116.50	3,809	14,787
Dec	113.50	+1.45	115.00	112.25	705	5,025
Mar	110.75	+1.20	111.75	109.50	130	1,799
May	109.85	+0.30	110.00	109.75	20	402
Jul	109.55	+0.15	110.05	110.05	4	143
Total					4,688	23,178

■ COFFEE (ICO) (US cents/pound)

Jul 5		Jul 3
Comp. daily	n/a	104.20
15 day average	n/a	106.81

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	379.5	-1.5	381.6	378.1	3,245	6,204
Oct	353.4	+0.8	354.0	352.0	819	8,534
Dec	341.7	+1.5	342.2	340.1	385	3,846
Mar	335.8	+0.7	336.0	333.6	508	4,231
May	333.1	+0.7	333.0	331.8	83	2,088
Aug	330.6	+1.6	329.5	329.5	1	775
Total					N/A	N/A

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	11.69	+0.30	11.71	11.31	3,150	69,478
Mar	11.20	+0.13	11.21	10.98	2,581	35,112
May	10.86	+0.06	10.86	10.73	851	14,141
Jul	10.58	+0.03	10.61	10.52	547	11,558
Oct	10.36	+0.03	10.40	10.32	57	5,016
Mar	10.19	-	-	-	6	531
Total					7,133	136,84-

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	70.60	+0.55	71.94	70.00	73	482
Oct	72.38	+0.31	73.00	71.85	1,052	7,828
Dec	72.96	+0.12	73.49	72.50	2,828	33,084
Mar	74.30	+0.15	74.85	74.00	495	8,834
May	75.20	+0.20	75.50	74.90	244	5,042
Jul	75.85	+0.20	76.35	75.90	12	3,553
Total					N/A	N/A

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	125.00	-0.50	126.10	124.60	546	1,267
Sep	121.35	-1.10	123.25	120.70	1,425	10,785
Nov	118.40	-0.60	119.80	117.75	253	2,375
Jan	116.00	-1.00	117.70	116.00	42	3,786
Mar	117.80	-1.00	119.40	118.80	2	308
May	119.10	-1.00	120.00	120.00	9	198
Total					N/A	N/A

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 8	Jul 5	month ago	year ago
1998.3	1994.2	2110.5	2255.2

■ CRB Futures (Base: 1967=100)

Jul 5	Jul 4	month ago	year ago
247.73	249.25	na	na

■ GSCI Spot (Base: 1970=100)

Jul 5	Jul 4	month ago	year ago
207.89	208.18	200.09	171.86

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Aug	66.825	-0.400	67.200	66.725	3,501	35,879
Oct	69.025	+0.125	69.075	68.400	1,298	26,199
Dec	66.650	-0.275	66.850	66.250	1,368	12,490
Feb	64.825	-0.225	65.100	64.600	735	12,338
Apr	66.850	-0.150	67.000	66.675	256	4,141
Jun	65.900	-	65.950	65.650	275	1,405
Total					7,487	93,692

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	59.650	+0.525	60.050	59.200	2,050	4,958
Aug	58.550	-0.150	57.000	56.350	3,444	11,877
Oct	53.675	+0.225	53.950	53.350	2,408	7,181
Dec	55.150	-0.250	55.500	54.900	1,088	7,418
Feb	76.900	-0.625	77.500	76.850	276	2,100
Apr	75.250	-0.375	75.600	74.800	66	595
Total					9,335	35,054

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	83.125	+2.000	83.125	82.275	702	2,164
Aug	80.300	+2.000	80.300	79.200	1,010	3,297
Feb	81.025	-0.700	82.600	80.750	235	1,078
Mar	81.700	-0.250	82.000	81.700	23	58
May	82.975	-0.625	82.500	82.500	5	68
Total					1,656	6,666

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1400	104	145	8	20
1500	39	80	42	53
1600	9	39	111	108
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
1800	211	211	56	97
1900	150	160	95	143
2000	103	118	146	198
■ COFFEE LCE	Sep	Nov	Sep	Nov
1650	110	125	95	153
1700	88	107	123	185
1750	71	91	156	219
■ COCOA LCE	Sep	Dec	Sep	Dec
1000	78	94	11	48
1025	64	80	22	59
1050	50	68	33	72
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1900	72	62	3	51
1950	34	41	14	-
2000	11	25	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.73-7.75	-0.510
Brent Blend (dated)	$19.60-9.65	-0.475
Brent Blend (Aug)	$19.35-9.40	-0.475
W.T.I.	$21.32-1.33x	-0.025

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$213-216	
Gas Oil	$180-181	+4
Heavy Fuel Oil	$87-89	
Naphtha	$184-186	+1
Jet fuel	$201-203	+2
Diesel	$180-181	+1

■ NATURAL GAS (Pence/therm)

Bacton (Aug)	13.25-13.50	+0.325

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

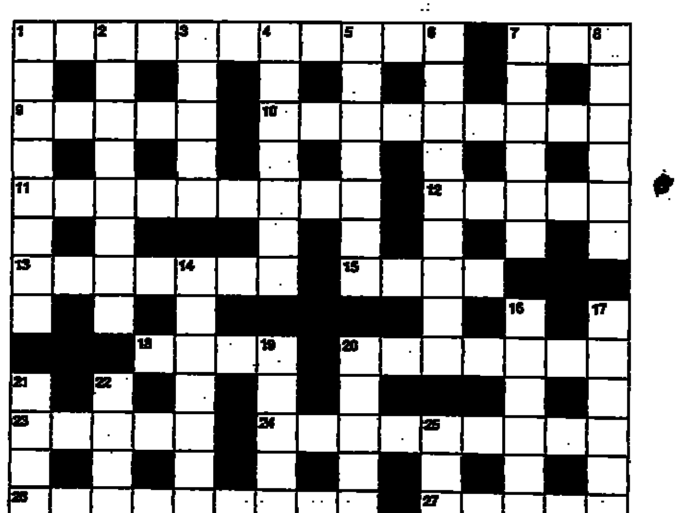
Gold (per troy oz)‡	$381.90	+0.25
Silver (per troy oz)‡	509.50c	+1.00
Platinum (per troy oz.)	$390.00	+0.50
Palladium (per troy oz.)	$130.75	-0.75
Copper	95.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.68r	
Tin (New York)	298.50	+1.00
Cattle (live weight)	100.67p	-0.31*
Sheep (live weight)	112.50p	+0.70*
Pigs (live weight)	123.09p	+0.82*
Lon. day sugar (raw)	$311.30	
Lon. day sugar (wte)	$389.00	-2.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Aug)¥	93.00p	
Rubber (Sep)¥	93.00p	
Rubber (KL RSS No1)	338.00m	-5.00
Coconut Oil (Phil)§	825.0w	+5.0
Palm Oil (Malay)§	$472.5z	
Copra (Phil)§	$525.0w	
Soyabeans (US)	209.0	-2.0
Cotton Outlook 'A' index	78.45c	
Wooltops (64s Super)	430p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Aug. w Jul/Aug. y Sep/Oct. ¥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week, † Based on 464 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,115 Set by HIGHLANDER



ACROSS

1 The standard entertainment is first to put in an appearance (4,3,4)
7 Forecast for summit; a light blow (3)
9 Drain off from lowest point and upset tax people (5)
10 Describes in detail the type provided inside (9)
11 I can still go adrift a very small amount (9)
12 A silly back scrubber (5)
13 One-time tennis champion working with football team (7)
15 Humidity beginning to destroy current unit (4)
18 Hairdresser might give one entry for pool (4)
20 Pet name for boy from Barcelona (7)
23 Football team's second half not fit to be shown in museum building (5)
24 Whip let wrong chap become rancher (9)
26 Aide-memoire about a surplus (9)
27 Place for staging sports in which there are national championships (5)
28 Animal to be pronounced upper class shortly (3)
29 Paddy has a true version which shows level of heat (11)

DOWN

1 Nurse conceals part of foot – that's ominous (8)
2 Destined to be given holy orders (8)
3 A sort of card sharp holding nothing (5)
4 Greek character has no problem when speaking English backwards (7)
5 Pull fish over to sheltered side (7)
6 Seabird holding one to me turned up another seabird (9)
7 Stumble over something very big in final exams (6)
8 After all, not completely related to letters (6)
14 Appropriate person to treat sex criminal? (9)
16 Wildly fumble with AA torch (8)
17 Overrun appointment with one sister at the start (8)
19 Lady accepts bill for road surfacing (7)
20 Group takes bed over one of the Great Lakes (7)
21 Opposed claim on two points (6)
22 Tops of fresh eggs put round meat on fire (6)
25 Learner driver left in the morning on a camel (5)

Solution to Saturday's prize puzzle on Saturday July 20.
Solution to yesterday's prize puzzle on Monday July 22.

GHANA

African trailblazer begins to falter

A lapsed recovery programme prompts concern about prospects for the continent as a whole, say Michela Wrong and Michael Holman

Thirteen years after Ghana launched Africa's first economic recovery programme, the country long regarded by western donors as the continent's model reformer is in difficulties.

Notwithstanding aid flows averaging $600m a year, Ghana's annual GDP growth rate is falling below the minimum 5-6 per cent target. For the second successive year, inflation is running at an annual rate of more than 50 per cent, and interest rates are negative, forcing the International Monetary Fund (IMF) to step in and apply the screws.

More is at stake, however, than the welfare of a country that was in the vanguard of the struggle against colonial rule, winning independence from Britain in 1957.

Ghana's subsequent decline turned it into a symbol of Africa's malaise. But since 1983, when President Jerry Rawlings launched its reform programme, the country has become synonymous with hopes for Africa's recovery.

And when in 1992 military rule gave way to multi-party elections and a return to civilian government, it gave encouragement to a continent struggling to combine structural adjustment with democracy.

Thus if Ghana falters in its trailblazing role, not only will international confidence in the continent's capacity to recover be jolted, the credibility of the donors' development strategy for Africa will also be eroded.

For all the considerable achievements of President Rawlings and his government – maintaining peace and stability in a troubled region, and reviving an economy devastated by mismanagement and coups – Ghana is falling short of its objective: sustained high growth, fuelled by high domestic savings and substantial foreign investment.

The presidential and parliamentary elections, only six months away, come at a crucial stage in Ghana's post-independence history, and Mr Rawlings is in a dilemma.

If he does not meet the tough conditions of the Fund's enhanced structural adjustment facility, which require severe cuts in state spending, he risks alienating the donors, and further undermining an already faltering recovery programme.

Yet to comply with the IMF terms risks an electoral backlash, certain to be exploited by opposition parties which believe they can unseat the man who has ruled Ghana for 15 years – provided, that is, they can form a united front.

But Mr Rawlings is not the only one in a dilemma. So, too, are the donors. They are caught between the need to put Ghana's reform programme back on track, and their fear that if they enforce the painful measures now necessary, they could threaten the re-election of the man most of them still believe is the best candidate for the job.

Just five years ago it could be argued that Ghana was poised for take-off. The Rawlings government had brought inflation down to 18 per cent, GDP growth in 1990 reached 5.3 per cent, and private investment had risen to a 10-year high of 8.1 per cent of GDP.

But an opportunity was squandered. Spending in the run up to the 1992 election, which marked the end of military rule, rose sharply.

It helped secure Mr Rawlings' election, but the country has yet to recover from the damage done.

Four years later, it remains to be seen whether the government has learned from the lesson or whether political expediency will triumph once again.

A bumper cocoa crop – the highest for a decade – and a booming gold sector, whose exports have supplanted cocoa as the country's main export earner, have boosted economic performance. But reasserting fiscal discipline still requires tough measures.

In a pledge addressed as much to anxious donors as to Ghanaians, Mr Rawlings has vowed not to repeat the mistakes of 1991-2.

"This government has no intention of subordinating the nation's economic interests to political expedience," the president said earlier this year, a theme taken up by the country's finance minister, Kwame Peprah, when presenting the 1996-7 budget in June. "Our proposals today aim to avoid the populist path, the path of least short-term resistance," said Mr Peprah.

Under the terms agreed with the IMF, the annual rate of money supply growth is planned to fall from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. Tight controls are imposed on the government budget, particularly in the road building sector, where overspending in the past has been *one of the factors behind inflation.*

Meeting these targets in any year would be difficult. In an election year, it may be unrealistic. The government's recent record, let alone its performance in 1991-2, does not inspire confidence.

Sceptics point to the disappointing performance in 1995, when budget targets, including a reduction of inflation to 15 per cent, proved little more than wishful thinking.

Last year "represented one more year in a series of dashed hopes and frustrated expectations", commented the Centre for Policy Analysis, the independent Accra think-tank headed by Dr Joe Abbey, a former ambassador.

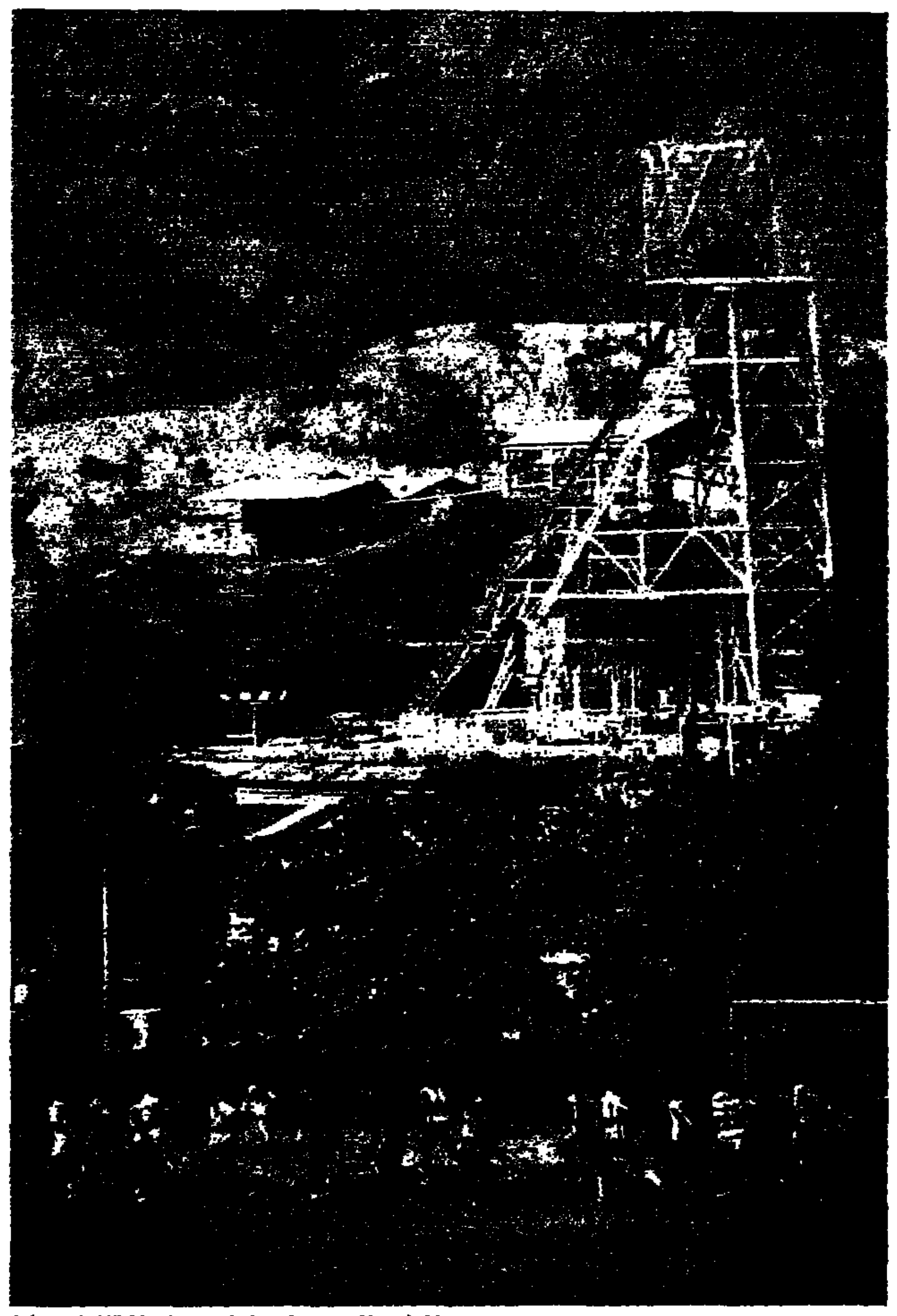
The two main opposition parties, the New Patriotic Party (NPP) and the Peoples Convention Party (PCP), are doing their best to make political capital out of the government's economic difficulties.

In 1992, Mr Rawlings's National Democratic Congress (NDC) strolled to victory in the parliamentary polls after the opposition withdrew, alleging rigging of the presidential polls.

This year the NDC's task will be a lot harder: the opposition is not planning to boycott the exercise, and hopes to field a single presidential contender, while presenting joint candidates in the constituencies to ensure a hefty block of parliamentary seats.

Most observers will believe it when it happens, for the rivalries run deep, and the NDC has shown itself adept at sowing the seeds of discord among its opponents.

Nonetheless, the NDC seems worried enough about its electoral prospects to be tempted to try to spend its way to victory.



Ashanti Goldfields at Obuasi: the mineral is Ghana's biggest export

One area of potential political patronage is investment in roads, which in 1995 rose to 54 per cent of the capital budget, amounting to 6 per cent of GDP. The 1996 programme calls for a sharp reduction in capital outlays to 3.9 per cent of GDP from 6 per cent in 1995, with the road construction programme taking the biggest cuts.

Under the agreement with *the IMF*, arrears in payments to constractors are supposed to have been cleared or rescheduled. But local commercial bankers are noticing that some contractors are once again borrowing to fund projects, with the intention of submitting their bills to government after the election is out of the way.

Although the political motives seem clear – roads win votes – the issue also goes to the heart of one of the biggest problems faced by African countries implementing structural adjustment programmes.

Weak infrastructures hamper development and deter investors, foreign and domestic. It is hard to see how cuts in spending on roads is compatible with development.

Yet, in sectors where private investors could provide management expertise and capital, Ghana is moving slowly, and state-owned enterprises such as Ghana Airways and the telecommunications corporation have yet to be privatised.

Meanwhile, all is not well within the ranks of the NDC itself. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation". The clumsy handling of a drugs scandal at the Ghanaian embassy in Geneva and allegations of corruption among top officials have also tainted the government's image.

But most damaging to Mr Rawlings's re-election prospects is the mounting discontent in urban areas at the failure to achieve prosperity, and the impact on living standards of rising prices.

The picture is more encouraging for the president in the rural areas, which have clearly benefited from the reforms – a greater proportion of the sales prices going to the cocoa farmers, and employment opportunities provided in the rapidly expanding mining sector and timber business.

Few statistics better illustrate the resultant shift of spending patterns than figures provided by Unilever. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent.

The combination of rural backing and divisions in the opposition may yet be enough to see the president and his party back in power, albeit with the prospect of a much-reduced parliamentary majority for the NDC.

But if it is achieved through breaking the spending targets agreed with the Fund, the price will be high. As one diplomat pointed out, in 1991-2 "it took a year for the increase in money supply to work its way through the system. This time the whole economy is on an inflation footing and if they did the same thing again, the cedi would collapse."

If on the other hand, the government refuses to take the path of expediency, Ghana still faces a demanding period. As an IMF paper notes, despite the progress made during 1983 to 1991, "real per capita growth averaged 2 per cent a year" during this period. "At this rate, Ghana's average poor would not cross the poverty line for well over 30 years".

It may well be that this is all Ghanaians can hope for. But if this is the best that structural adjustment can offer Africa, the continent faces a long haul.

IN THIS SURVEY

● **Economy:** back in intensive care
● **Investment:** hunt for foreign capital **Page 2**
● **Banks:** *front-line fighters of inflation*
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● **Privatisation:** pace of sell-offs quickens
● **Stock exchange:** sparkle begins to fade **Page 4**
● **Cocoa:** *bumper crop of beans expected*
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● **Politics:** Rawlings faces tougher test
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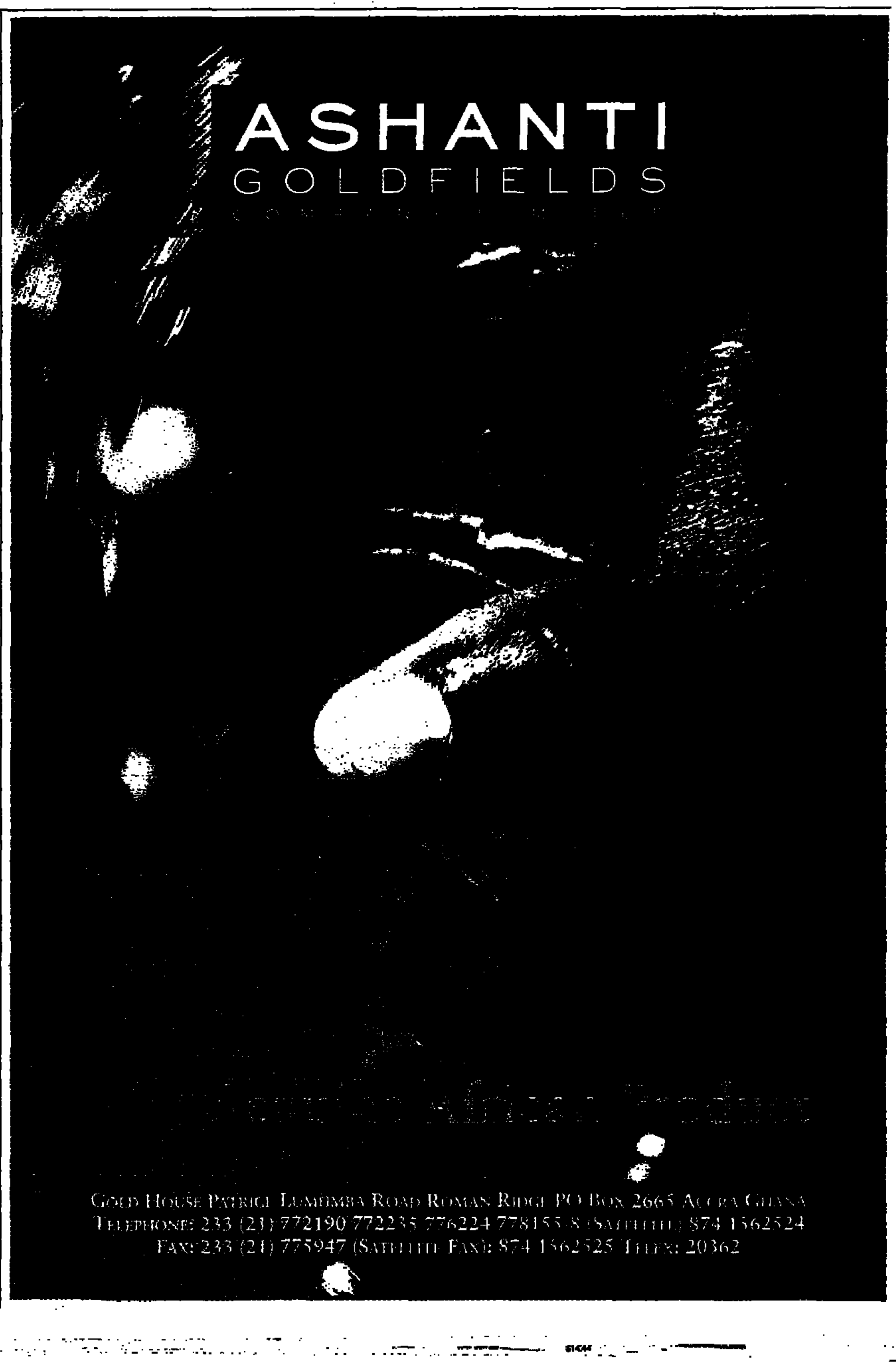
Exchange rates
Average for 1995: \$1=1,200.43 cedis
Average for 1996 (up to June 30): \$1=1,553.58 cedis

Production editor: Roy Terry



■ **Economy:** by Tony Hawkins

Back in the intensive care ward

Analysts are sceptical about the will to meet the tough targets set for next year

"If the government can keep its nerve and its hands in its pockets and not in the till, then it might just make it," says a Ghanaian businessman. This widely-held view underscores the reality that Ghana will only meet the tough targets set for the next year and regain some of its former prestige as Africa's structural adjustment success story if the government's political will and management capacity measure up to the task. There are mixed signals on both counts which is hardly surprising less than six months before the elections.

Last month, Accra managed to convince the International Monetary Fund of its seriousness about maintaining fiscal and monetary discipline in an election year. Given the track record in Africa – and elsewhere – where governments have repeatedly turned a blind eye to fiscal and monetary targets to buy votes, scepticism is justified.

Indeed, given the slippages that have bedevilled the economy since 1992, the Fund was no pushover, and the mid-term review of Ghana's Enhanced Structural Adjustment Facility (ESAF) loan, which should have been completed at the end of 1995, dragged on into the second quarter of this year with Accra being forced to seek waivers for missed performance targets.

However, the grounds for scepticism extend well beyond the matter of political will. The targets, rightly described by one observer as "ambitious," involve transforming last year's marginal budget deficit of 0.1 per cent of GDP into a surplus of 2.4 per cent (or 0.6 per cent excluding privatisation proceeds), to be achieved by a combination of spending cuts, especially on road construction, increased revenue from privatisation, corporate taxes (including a substantial back payment of company tax by one of the banks) and higher tax receipts from cocoa.

There will be salary savings, too, partly from the government's wage deal with the civil service unions for a 30 per cent pay rise – less than half the headline inflation rate in the first four months of the year – and also reflecting reduced payments for terminal benefits.

The counterpart of fiscal restraint is the plan to bring down the rate of money supply growth from almost 40 per cent at the end of 1995 to 5 per cent by the final quarter of this year. While this looks ambitious – money supply growth actually accelerated marginally in the first quarter of 1996 – the authorities insist that they are on track. Reserve money, the benchmark used to target the money supply, declined some 6 per cent in the first four months of the year, suggesting that the central bank is sticking to its guns.

Balance of payments ($m)

	1994	1995	1996r
Exports	1,227	1,431	1,587
of which			
Gold	549	647	683
Cocoa	320	390	460
Timber	165	190	212
Imports	1,580	1,687	1,947
Trade deficit	353	256	350
Net services	–384	–409	–405
Private transfers	271	263	305
Official transfers	201	260	239
Current account	–265	–142	–211
Net capital	429	426	326
Overall balance	164	284	115

Source: IMF

The authorities are committed also to maintaining positive real interest rates as part of the plan to mobilise savings and restrain demand. Bankers, businessmen, diplomats and opposition politicians point out that money market interest rates – and even more so, bank deposit rates – are well below the headline inflation rate of around 65 per cent for the January-April period. They accuse the IMF of resorting to smoke-and-mirror tactics to demonstrate that the underlying (seasonally adjusted) inflation rate is, in fact, about half the headline rate, enabling it to claim that interest rates are already positive. But that claim carries little credibility when the Fund itself is forecasting annual headline inflation this year of 45 per cent.

Much of this sounds – and is – immensely technical. It is difficult to escape the conclusion that the Fund's computers have been allowed to dominate its judgment. The very precision of some of the targets in a country where the actual economic database is profoundly weak suggests that fine-tuning has taken precedence over pragmatism.

Money supply and inflation rates

	Inflation		Money supply	
	Target % p.a.	Actual % p.a.[1]	Target % p.a.	Actual % p.a.[1]
1990	15	38	10.5	18
1991	20	10	15	20
1992	5	13	12	53
1993	20	28	0	27
1994	15	34	5	46
1995	19.5	71	14	37.5
1996[2]	45	n.a.	17	n.a.

[1] Year on year; [2] Targets

Source: IMF

This is not to question the broad thrust of the policy, which is undoubtedly appropriate from a short-term viewpoint. Many, however, will be unhappy with its longer-run implications, especially the reduction in public sector investment spending, which needs to be increased because it is clear that private sector growth is being constrained by Ghana's weak infrastructure.

In the 1996 budget, recurrent spending is up slightly at 17.1 per cent of GDP, with interest payments rising to 4.7 per cent from 4.3 per cent last year. But development expenditure is down to 3.9 per cent of GDP from 6 per cent last year, with the result that overall public spending falls to 21.4 per cent of GDP from 23.7 per cent in 1995. This underlines a significant weakness of adjustment programmes; a short-termist approach that neglects the investment in physical and human capital necessary to exploit the benefits of macroeconomic stability.

Indeed, reflecting the fall in government capital spending, investment will decline as a ratio of GDP this year to below 18 per cent, which might be enough to secure output growth of around 4.5 per cent – a far cry from the 8 per cent growth target set out in Ghana's Vision 2020 programme.

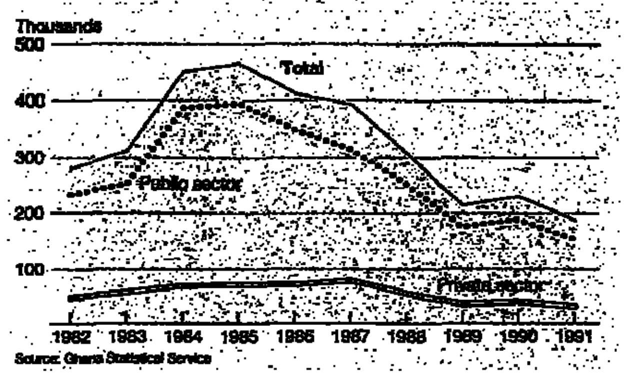
While official figures show that Ghana has managed to reduce poverty by cutting the proportion of the population living in poverty from 36.4 per cent in 1987/8 to 31.5 per cent in 1991/2, this is purely a rural phenomenon, reflecting the recovery of the cocoa industry, in particular. In urban areas, poverty deepened slightly and this trend may well have been maintained over the past few years, though no meaningful numbers are available to show what has been happening.

In the decade to 1991 – the most recent year for which there are figures – employment grew strongly until 1985 when it peaked at 464,000, before collapsing dramatically to 186,000.

If the official statistics are accurate the public sector shed some 240,000 jobs in the five years to 1991, while private sector employment, which accounts for only 17 per cent of the total, fell almost 50,000 to only 31,000.

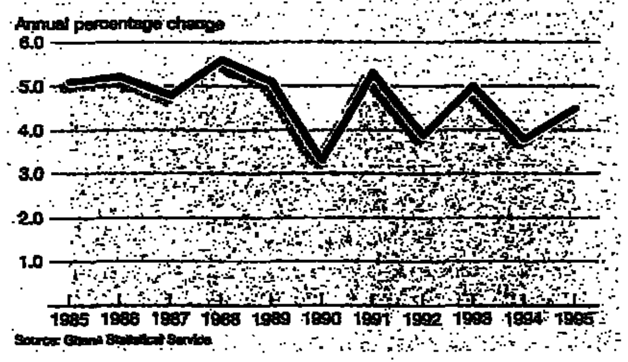
Official studies show self-employment, especially in services in rural areas, compensating for this situation with the informal sector producing at least a fifth of GDP. But sustained poverty reduction will only be achieved by increased formal sector wage employment. Sadly, the Ghana Investment Promotion Centre's experience suggests that only 15,000 new jobs have been created by the 205 new projects approved since September 1994, implying that it costs $15,000 to create a single job.

Employment



Source: Ghana Statistical Service

GDP growth



Source: Ghana Statistical Service

With savings levels averaging less than 10 per cent of GDP, it is obvious that private foreign investment is the key to sustained recovery. Under current conditions, Ghana cannot hope to attract sizeable foreign inflows except in the mining sector, and possibly, through privatisation, though here too the number of ventures likely to win foreign support is relatively small. Given the country's rundown infrastructure and narrow domestic market, multinationals seem unlikely to be attracted by manufacturing opportunities, especially since there are formidable transport and tariff obstacles to servicing the regional market from Ghana.

Infrastructural shortcomings will constrain efforts to develop export-driven manufacturing activities in Ghana's recently-launched free zones, especially since labour is not particularly cheap by Far East standards. The minimum wage is just over $1 a day and while this is likely to fall with the continuing depreciation of the cedi, it is difficult to see Ghana becoming globally competitive in the medium term, other than in mining and agriculture.

Despite this, the external payments situation has improved mainly on the strength of strong gold and timber exports and the recovery in the cocoa sector. However, with export volumes having grown strongly in only two of the past six years, the balance of payments has been sustained by weak import demand – import volumes fell almost 20 per cent in 1993/4 – and by sharply higher export prices which have risen more than 40 per cent since 1992.

With gold export growth likely to slow as production flattens out at Ashanti's Obuasi mine and timber production being cut for environmental reasons, Ghana needs to expand non-traditional exports which last year were worth $150m, of which a third was electricity.

Britain is far and away the country's main trading partner, accounting for almost 14 per cent of total foreign business, followed by Germany and the US with between 9 per cent and 10 per cent each. Two thirds of Ghana's exports are sold to industrial countries which supply 60 per cent of imports, implying scope for trade diversification, especially in Africa and Asia.

The external debt situation has stabilised, too, with the foreign debt/GDP ratio falling to 80 per cent last year from 95 per cent in 1994, while, after reaching 36 per cent of exports in 1995, debt-service payments are forecast to decline to 21 per cent by 1998.

With real per capita incomes having risen 8 per cent since 1990, Ghana is performing better than most sub-Saharan economies, but as Ghanaians themselves are the first to point out, that does not mean very much. Not only that, but having graduated out of structural adjustment in 1991, the country is now back in the IMF's intensive care ward. And even if the administration does put economics before politics over the next six months to the point where relative price – and exchange rate – stability can be restored, it will have won no more than a minor skirmish and a brief breathing space.

In the absence of Asian-style foreign direct investment inflows, the economy will continue to expand at 4 per cent to 5 per cent annually while the living standards gap with the world's dynamic economies continues to widen. Surely, there is more to "successful" reform than this?

Cement factory: Ghana sees itself as the most attractive investment location in West Africa

■ **Investment:** by Tony Hawkins

Foreign capital needed

Ghana sees itself as a gateway to the Economic Community of West Africa states

Ghana's capacity to transform aid-driven structural adjustment into sustained economic growth hinges on its ability to increase very substantially private sector savings and investment. The track record for the first five years of the 1990s is less than inspiring – private sector investment averaging 4.9 per cent of GDP funded by private savings averaging a mere 5 per cent of GDP.

If the economy is to grow at the 8 per cent rate targeted by government, investment levels will have to double from the 15 per cent average – public as well as private – achieved between 1991 and 1995 to around 30 per cent a year. In a low income economy, with per capita incomes growing at only 1.5 per cent annually, private savings are not going to fuel an investment boom.

Nor for that matter will public sector investment do the trick given the commitments to a budget surplus, to cutting back government's capital budget and to using privatisation proceeds to repay public debt. Over the next three years (1996-1998) central government capital spending will decline to less than 4 per cent of GDP from 4.5 per cent over the past four years.

So how can the economy double its investment rate so as to accelerate economic growth? Aid is one possibility, but an unpromising one given not just the low productivity of aid, but also the worldwide cutback in disbursements. Indeed, Ghana's own forecasts of official grants and long-term loan disbursements point to a decline of some $65m annually from recent levels, leaving foreign direct investment to provide the necessary impetus.

Yet here, too, the IMF's numbers are no more than modest. The Fund projects direct investment of less than $40m annually over the next three years, implying that – unless these figures are substantially wide of the mark – Ghana's GDP growth rate is unlikely to increase significantly from the 4.5 per cent a year achieved since 1991.

All of which explains why Ghana has moved decisively to smarten up its investment act and follow east Asia's example in attracting significant inflows of foreign capital. Since the new Ghana Investment Promotion Centre (GIPC) law came into effect in September 1994, some 205 projects have been registered with the GIPC representing investment of $225m. Not all of this is foreign capital; roughly a third of the $225m (about $76m) represents new foreign equity, and half ($112m) foreign loan capital. The balance of $38m (16 per cent) is made up of the local contributions of joint-venture partners.

Most of the registered projects – more than 70 per cent – are joint ventures with the balance of 27 per cent being wholly foreign-owned operations.

These numbers, which refer to registrations as distinct from actual investments, understate the true position because the GIPC does not handle the all-important mining sector.

By African standards, the implementation rate is high. By March this year, the GIPC had visited 116 (56 per cent) of the registered projects and found that just over 80 per cent had actually taken off. This compares with a figure of just over 50 per cent in Zimbabwe.

Ghana sees itself as the most attractive investment location in West Africa, where it believes it can fulfil a regional gateway role, attracting foreign companies wishing to penetrate the 16-nation Economic Community of West Africa States (Ecowas) market.

Ghanaian policy-makers are right to focus on export-led activities, given the narrow domestic market ($7.3bn) and low levels of per capita income ($430).

But regional investment has little appeal in the light not just of Ghana's depleted transport and inadequate energy infrastructure, but also the many obstacles to cross-border trade within Ecowas. One businessman says it takes 11 days to send a lorry load of products to Cote d'Ivoire – a journey that in Europe would take a day and a half. Hopes of attracting regional investment are unlikely to be realised until both the infrastructural and administrative obstacles to cross-border activity are overcome. That is going to years, if not decades.

Along with many other African countries, Ghana is setting up export processing (free) zones in an effort to attract job-intensive export-oriented investment. Free zones are being set up at Tema and Takoradi and there is also provision for stand-alone single factory zones, whereby a business, exporting at least 70 per cent of its output, can apply for its factory to be designated as a free zone. Incentives include a 10-year tax holiday, with a maximum subsequent tax rate of 8 per cent, compared with the standard corporate rate of 35 per cent.

There are no restrictions on equity ownership in the zones, profits are freely remittable with no withholding taxes payable on dividends. Employers are free to negotiate wages and working conditions with workers and labour unions, provided such terms are consistent with International Labour Organisation conventions.

The 10-year tax holiday provision also applies outside the free zones to such activities as cocoa farming and production, cattle ranching, and the production of tree crops. The 8 per cent incentive tax rate applies also to income earned from non-traditional exports, while hotel profits are taxed at 25 per cent.

It is questionable whether incentives are decisive in influencing investment location decisions in Africa in the mid-1990s. The reality is that most of the region's foreign investment is resource-intensive and location-driven – mining, energy, tourism, agriculture and agro-processing. Export platform and gateway investment is deterred by weak infrastructure, scarce skills, especially management, and the quality of labour which, increasingly, matters more than labour costs alone.

While Ghanaian officials highlight their country's strategic location as an island of peace and stability in a politically volatile region, this is something of a double-edged sword.

If the large markets in the region, especially Nigeria ($30bn) are unattractive for reasons of political instability, then multinationals are as likely to stay away from the region altogether and export into the West African market from outside, rather than risk investing in Ghana, on the off chance that it will prove to be a viable platform for exploiting the Ecowas markets.

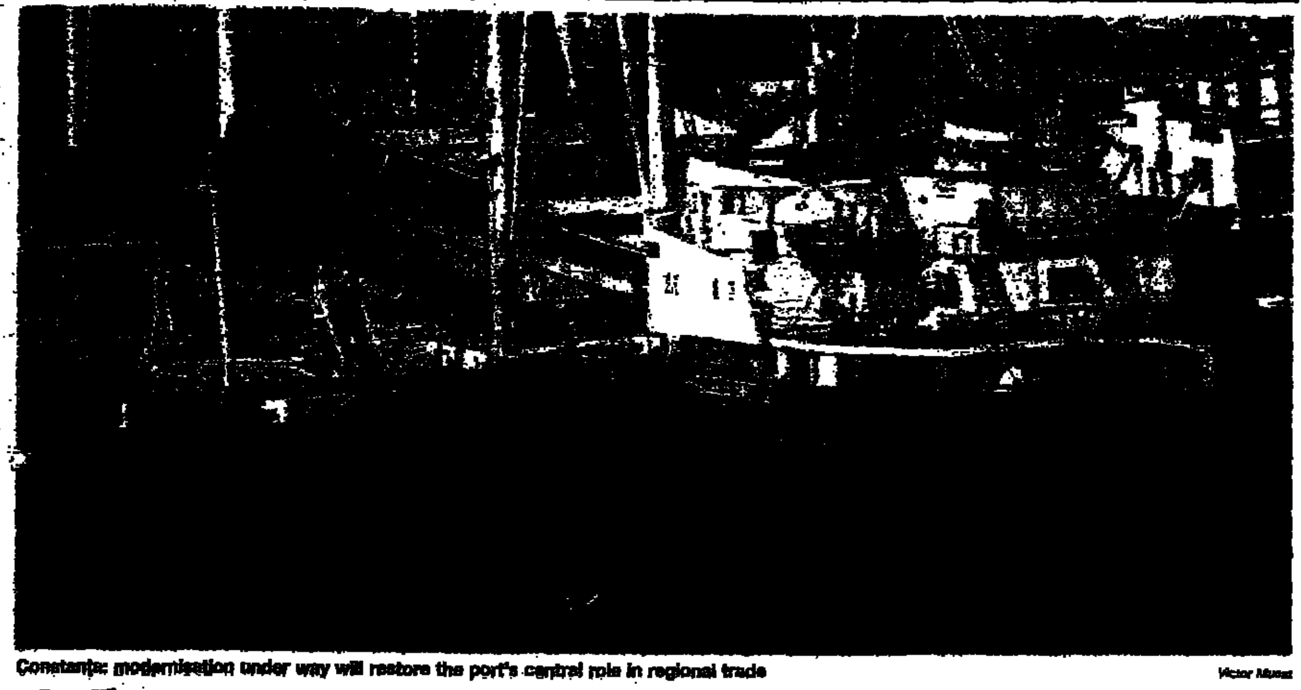
None of this suggests that Ghana is about to attract the levels of foreign direct investment necessary to transform it from a 4 per cent to 5 per cent growth economy, driven by aid and mining investment, to a 6 per cent to 8 per cent growth economy, driven by substantially higher levels of private sector investment.

Investment registrations (September 1994-March 1996)

Sector	Number	Value ($m)	% of total
Manufacturing	55	89.9	40.0
Services	61	75.7	33.5
Construction	22	28.4	12.7
Agriculture	20	23.8	10.7
Other	47	7.3	3.1
Total	205	225.1	100.0

Source: Ghana Investment promotion centre

ROMANIA



Constanta: modernisation under way will restore the port's central role in regional trade Victor Moss

The political heat is on

With elections in view and support for the ruling party waning, reforms are falling victim to populist measures, say Virginia Marsh and Kevin Done

This year the Romanian summer will feel hotter than usual. Although the autumn's elections are four months off, the campaign is under way, sound but unpopular economic policy decisions are being sacrificed to the race for votes, and the country's splintered political forces are busy negotiating pacts and choosing their presidential candidates.

The poor performance of the ruling Party of Social Democracy (PDSR) in last month's local elections, the first nationwide polls for four years, has given centrist and centre-right opposition parties their greatest chance yet to win power at the national level and end the former communists' seven years in government.

This increases pressure on the PDSR's minority government to take populist measures at the expense of market-led reforms. These have already included wage increases in the state sector, fixing the exchange rate of the leu at artificially high levels, delays in raising centrally-controlled energy prices and channelling huge subsidies to agriculture.

Such measures are taking their toll on the country's fast-growing but fragile economy. Florin Georgescu, finance minister, has been reluctant to abandon publicly an end-December inflation target of 20 per cent and insists that restructuring of the state sector is continuing apace.

Independent analysts, however, say inflation may rise to 30-40 per cent and that, in spite of the efforts of the motivated but small government restructuring agency, restructuring has slowed, reflected in the fall in unemployment to 8 per cent, continuing large stocks of industrial goods and high inter-enterprise debt.

However, the looming presidential and parliamentary elections, due on November 3, are proving a powerful incentive to complete a mass privatisation programme, the government's most ambitious undertaking. The scheme will transfer to the population stakes of up to 60 per cent in nearly 4,000 state companies, accounting for nearly a third of gross domestic product in 1994.

In parallel, an over-the-counter market is being set up, with US help, to deal with the huge trading volumes expected. Capital market development has also been helped by the National Bank of Romania's recent bond issues, its first on global markets in half a century.

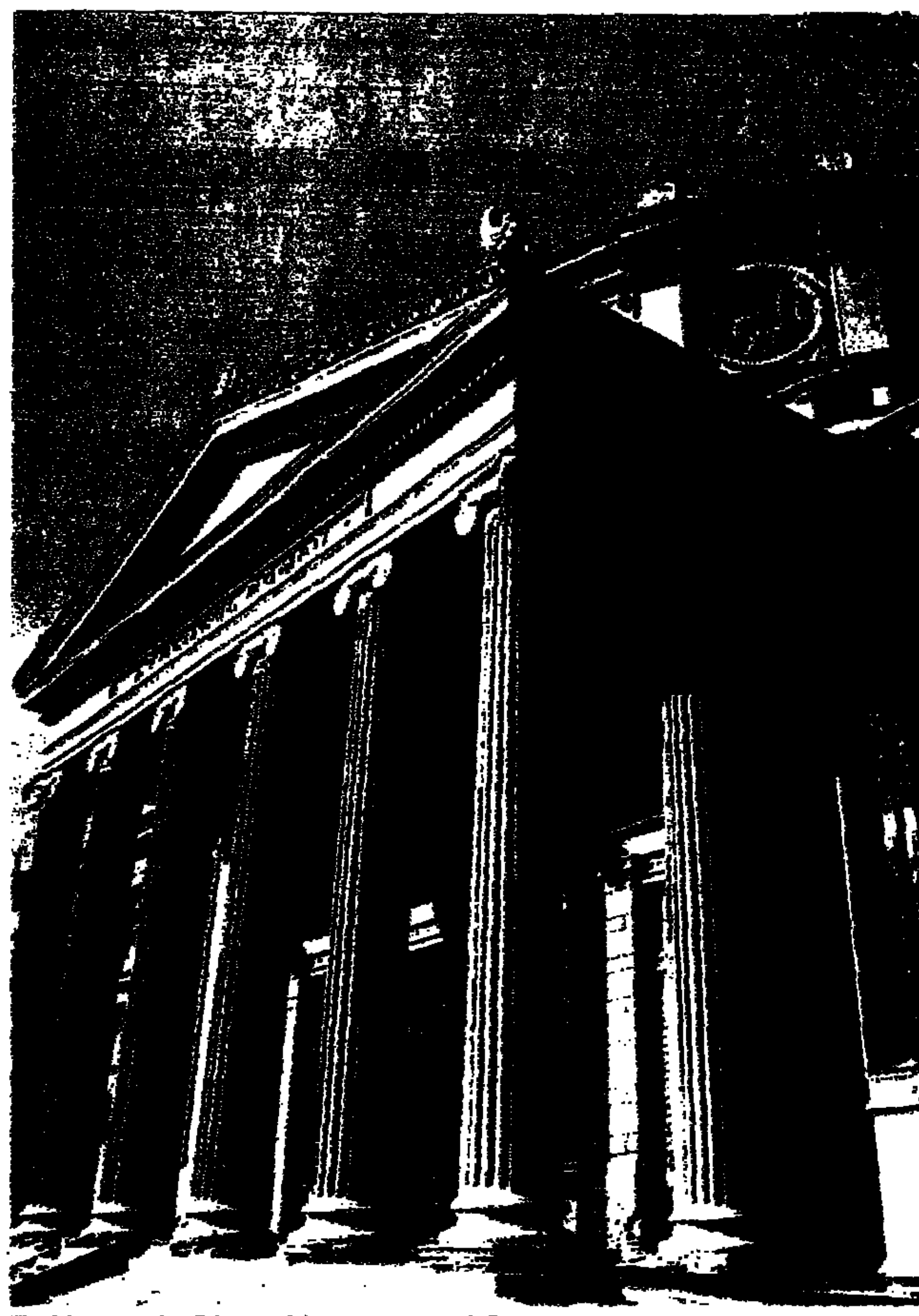
Although the programme will privatise majority stakes in only a portion of the companies, it should break the state's grip on much of the economy and raise the share of the private sector, especially in industry. At present, the private sector accounts for about 45 per cent of GDP but is concentrated in agriculture, services and trade, providing just 16 per cent of industrial output.

The programme is also being viewed with interest by foreign investors who have exhausted many of the best acquisition possibilities in central Europe. "The heat of the searchlight is passing from countries like the Czech Republic and Hungary to Romania," says Henry Russell, resident representative of the European Bank for Reconstruction and Development. "But Romania must get through its election year wobbles."

Although the government frequently states its commitment to foreign investment, companies say it remains difficult to negotiate with the State Ownership Fund (SOF), the main privatisation body, and that large deals often go ahead only after the intervention of senior politicians.

This is a big problem in a country in desperate need of capital to raise low local living standards, improve its infrastructure and capitalise on its human and natural resources.

"Much of the private sector consists of 'mom and pop' type enterprises with little capital or know-how, dependent on the energy of the individuals who run them," says a western banker in Bucharest. "At the same time, most foreign investors so far are primarily interested in consumer goods and the domestic market. But the authorities are pinning their hopes on export-led growth," he says. "A main concern has to be the absence of long-term, large-scale investment in old and new export industries."



The Athenaeum, the city's turn-of-the century concert hall Victor Moss

The difficulties at the SOF highlight one of the greatest short-comings of Romania's fledgling democracy: the failure to develop sufficiently the institutions of a market economy and a modern state.

"People complain about the bureaucracy in Romania," says a former senior official, now working in the private sector. "Our problem is we have no proper bureaucracy. There are no rules, no clear systems, institutions don't work and corruption is huge." He believes this can be resolved only by a change of government. "I still consider the PDSR has the best people," he says. "But the ruling party needs to know what it is like to be in opposition."

It is hoped that, whatever the election results, the future executive will enjoy more political support than the present administration. Prime Minister Nicolae Vacaroiu only recently joined the PDSR and few members of his cabinet are senior party officials, contributing to a power vacuum at the heart of government. This has slowed decision-making and encouraged a lack of transparency.

Together with its hesitant pursuit of market-led reforms, this has led opposition parties to accuse the PDSR of developing a Latin American-style system, bent on keeping Romania at the back of the queue for European integration.

"In this year's elections Romanians can choose between two directions – a South American-type state led by a cynical, rich and corrupt oligarchy ... or they can opt to become a real democratic state supported by a healthy economy and a middle class capable of ensuring social stability," says Emil Constantinescu, who heads the centre-right Democratic Convention (CDR), the main opposition coalition. Mr Constantinescu is the CDR's candidate in the presidential elections – a race analysts expect the incumbent Ion Iliescu to win.

While short of funding, the CDR as well as Petre Roman's Democratic Party, the main component of the recently-formed Union of Social Democrats, the second opposition group, face the elections better organised than four years ago. The explosion of private local and national radio and TV stations, breaking the state's monopoly of the airwaves, has also helped the opposition.

However, it remains splintered. Dorel Sandor, head of the local CPSCA think-tank, says that to win in the autumn, opposition politicians must make alliances and show they can work together effectively on Bucharest city council and in the other areas won in local elections.

The PDSR had hoped that, after the next elections, it would be able to ditch its hard-line left-wing and far-right allies. But its poor performance last month suggests it may have to rely on extremist parties, including an anti-Hungarian nationalist group, to stay in power. This means little progress is likely in agreeing a much-delayed basic treaty with Hungary before the autumn while the presence of nationalists in the government has also complicated similar treaties with Russia and neighbouring Ukraine.

The treaty has also been delayed over the unclear status of a small Black Sea island which might influence division of international waters between the two countries. Oil and gas prospects make this strategically important.

As well as adding to on-going exploration projects being undertaken with the help of western oil companies, Romania hopes to make the port of Constanța a gateway for energy and other raw materials from the central Asian republics. "This is a huge strategic advantage Romania can offer Europe," says Teodor Melescanu, foreign minister. He says the country hopes to begin negotiations for EU and Nato membership at the same time as the more developed central European states.

■ **Economy:** by Kevin Done

A fragile condition persists

Despite a recovery, inflationary pressures continue and growth may start to slow

Romania is in its fourth year of economic recovery from the deep recession that followed communism's collapse. Last year it outperformed most other central and eastern European countries with a growth in GDP of 6.9 per cent, but the economy is still dangerously distorted. It is clear that the pace set in 1995 cannot be sustained and growth is forecast at a more modest 4 to 4.5 per cent this year.

Overheating of the economy in the second half of 1995 has presented the authorities with tough inflationary consequences and the central bank has been forced to tighten monetary policy with actions which may prove unpalatable in an election year.

Publicly government ministers repeat that the aim is to cut the inflation rate year-on-year from 27.8 per cent at the end of last year to 20 per cent by December, the target agreed with the IMF. But in private, officials accept that the target is already impossible to meet as inflationary pressures continue to build with consumer prices jumping by 5.3 per cent in May alone. "The experience of other transition countries has been that it is much more difficult to reduce inflation from 30 to 20 per cent and from 20 to 10 per cent than from 70 to 30 per cent," says Mugur Isarescu, governor of the National Bank of Romania.

The Romanian currency, the leu, is under pressure. Despite drastic measures taken to control the foreign exchange market, the central bank appears unable to bring the official and unofficial exchange rates in Bucharest into line. The persistence of an informal dual exchange rate has been a point of contention between the Romanian authorities and the IMF, which is unhappy with the recent resort to restrictive regulations.

It is withholding the second $70m tranche of the current stand-by loan until the inter-bank foreign exchange market is functioning properly.

A recent report by the Washington-based PlanEcon economic analysts said that "the restriction of foreign exchange licences has damaged Romania's image as a country moving towards reform".

While the official exchange rate has only recently moved just above 3,000 lei to the US dollar, the unofficial rate appears to have fallen to about 3,600 lei.

Between April 1995 and April 1996 the nominal exchange rate against the dollar fell from 1,879 lei to 2,913 lei. Further declines appear inevitable in with the money supply growing strongly and the central bank beset by government pressure to loosen monetary policy in an election year. High interest rates have had only limited success in slowing the inflationary tide.

The overheating economy forced the authorities into a hasty rearguard action late last year in the face of a rapid deterioration in the current account of the balance of payments, with the deficit jumping to $1.292bn in 1995 from $428m a year earlier.

While exports grew by 22.2 per cent last year to $7.5bn, they were outpaced by a 33 per cent jump in imports to $8.75bn, forcing the government to apply the brakes. Interest rates were pushed up, the banks' foreign exchange reserve requirements were raised, government expenditure was reined in. Some import tariffs were raised and many tariff exemptions removed.

These measures resulted in a fall in imports of 17.3 per cent in the first five months of 1996, reducing the current account deficit. However, the country's exports are highly dependent on imports, not least semi-finished products and oil and gas (although this year's opening of the first reactor of a Canadian-designed nuclear plant in Cernavoda should cut energy import bills) and the squeeze on imports hit the country's foreign trade.

As the growth rate slowed, exports, too, fell by 11.9 per cent year-on-year in the first five months, although the continuing rise in industrial production suggests that some exports are not being recorded.

Romania has made much progress in re-orienting its foreign trade towards the west, although, as in many other aspects of economic reform and restructuring, it lags behind fast-track transition countries in central Europe.

Last year exports to and imports from the European Union both accounted for more than 50 per cent of the total, whereas in 1990 the EU's shares were 32 per cent and 20 per cent respectively.

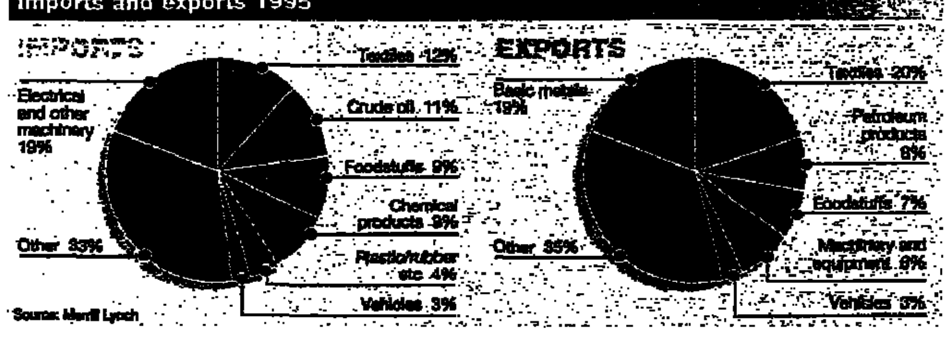
Imports from Russia – on which Romania still depends for energy supplies – rose by 20 per cent last year. Exports are dominated by textiles and garments, which rose by 28 per cent last year to $1.48bn, metals and metallurgical products, which grew by 31 per cent to $1.29bn, and by chemicals, and wood and furniture.

Agriculture still contributes a higher proportion of GDP at 20 per cent and employs a larger proportion of the workforce at 35 per cent than in any of the other central and east European countries outside the former Soviet Union (with the exception of Albania). After last year's bumper wheat harvest, it has been hard hit this year by a long and harsh winter and the government has had to boost the flow of cheap credit to the sector, undermining monetary policy.

Restructuring agriculture remains a daunting task, as in much of Romania's state-owned industry. Structural reform – including privatisation – is in its infancy. The private sector share of GDP is estimated at about 45 per cent and although rising, it is still well below other countries in central Europe.

Restructuring of state industries is under way but at a slow pace, and many remain loss-making, highly inefficient and burdened by heavy arrears. A recent study by IBCA, the European credit rating agency, said: "The degree of political consensus behind reform is not yet sufficiently robust to overcome the bureaucratic and other obstacles that can be put in its way."

Imports and exports 1995



Key economic data

	1992	1993	1994	1995
GDP growth (%)	-10.0	1.3	3.4	6.9
Budget balance (%GDP)	-4.6	-0.4	-1.9	-3.6
Inflation (%)	199	295	62	27.8
Exports ($bn)	4.4	4.9	6.1	7.5
Imports ($bn)	5.8	6.0	6.6	8.6
Current account (%GDP)	-8.0	-4.5	-1.4	-3.6
External debt ($bn)	3.2	2.2	5.5	6.6
Debt/export earnings (%)	65	39	77	74
Foreign reserves (excluding gold) ($m)	826	995	2,086	1,705

Source: Merrill Lynch

■ **Privatisation:** by Virginia Marsh

A surprising success

The programme has attracted a far higher level of public participation than was predicted

Far from being the flop that its critics predicted, Romania's ambitious mass privatisation programme has so far been relatively successful, albeit well behind schedule. Even government officials were surprised at the high-level of public participation in the scheme – some 85 per cent of those eligible entered bids.

Romanians could use free privatisation coupons to bid for stakes of up to 60 per cent in nearly 4,000 companies or could invest in one of five regionally-based funds. Separately, the State Ownership Fund (SOF), the main privatisation body, is selling off at auction or through direct negotiation the remaining stakes in the companies, which together represented nearly a third of gross domestic product in 1994.

Majority stakes of 51 per cent in about 550 of the most attractive companies have been set aside for strategic investors. The European Union's Phare programme is funding Capital, a local investment bank, the UK's Charterhouse and Société Générale of France to advise the SOF on the sale of 40 of the companies, mainly in the export sector, to foreign investors.

The SOF began cash auctions last December but potential investors say it remains hard to negotiate with the fund and there is frustration at the slow pace of sales.

"It's an election year and the SOF's shutters are coming down. We're seeing a bit of a return to Romania for the Romanians. But Romanian business doesn't have the money to buy everything. The country does need foreign capital," says a western lawyer.

"Every week we talk to one or two significant potential investors but the number of deals that comes to fruition is negligible... There has to be a willingness to sell at a more realistic price."

Meanwhile, Romanians have begun to receive notification of the shares they have been allotted under the programme. It is understood that about a quarter of the companies were fully subscribed with about 200 over-subscribed – up to 20 massively so. Sorting out who gets what is one of the many headaches the authorities must still resolve.

The most critical issue remains ensuring there is a mechanism that allows trading of shares to take place. This is a significant challenge given that the scheme has created 15m shareholders – more than in most European countries. Unlike the Czech scheme, the programme did not allow Romanians to pool coupons and bid for blocks of shares.

> 'It is absolutely critical the OTC works and that capital markets take off'

Trading is due to take place through a US-sponsored over-the-counter market called Rasdaq, a Romanian version of Nasdaq, which was originally due to become operational earlier this year. As the market is to be dematerialised, one of the most important tasks is to establish a share register – again complicated by the huge numbers involved as well as by the country's poor communications.

"It is absolutely critical the OTC works and that capital markets take off," says a western adviser. "The MPP is important as it transfers ownership of companies to individuals. But what Romanian companies need to survive is cash."

Given the difficulties of negotiating with the SOF, the scheme will give investors their greatest chance to date to acquire local companies.

"This is a unique opportunity," says Valeriu Velciu, president of Unicapital, a local securities company. "We estimate that up to a third of Romanians will want to sell their shares immediately which means that prices will be low. This is the time for foreign financial investors to come in."

Like other brokers, however, he is concerned lest the delay in setting up the OTC leads to parallel, unregulated trading which might further damage the reputation of local capital markets.

The sector has taken something of a battering in recent months, following problems at mutual funds and the disappointing performance of the Bucharest Stock Exchange which re-opened last November for the first time since the second world war.

After getting off to a reasonable start, both turnover and prices of the 13 stocks listed on the exchange have subsequently plunged.

However, the SOF recently agreed to hold at least 10 initial public offers over the coming months – with technical assistance from the UK's Know How Fund – in a bid to boost the exchange's liquidity, as well as the credibility of capital markets in general, before Rasdaq opens.

After initial friction between the proponents of the two markets, it is intended that companies will graduate, in time, from Rasdaq to the BSE which hopes eventually to list the country's leading public companies.

■ **Banking and finance:** by Virginia Marsh

Big four still rule the roost

Still dominated by state institutions, the sector cannot yet fully support a changing economy

Romania's nascent financial sector has reached a critical stage. Confidence has been eroded by trouble at several banks and mutual funds, the inter-bank foreign exchange market has all but ceased to function while confidence in capital markets has been hit by sagging prices and low turnover on the recently re-opened Bucharest Stock Exchange.

At the same time, the sector is being buoyed by the entry of several international banks and the resources they bring with them, as well as by the country's successful re-entry on to international capital markets and prospects of a lively over-the-counter market later this year once privatisation vouchers are exchanged for shares in nearly 4,000 state companies.

For the time being, however, the sector is not sufficiently developed or robust to support Romania's fast-growing but cash-strapped economy. "The continuing high cost of borrowing and the weakness of local capital markets affect the competitiveness of Romanian industry more than anything else," says Ion Florescu, chief executive of Capital, a local investment bank part-owned by Wasserstein Perella of the US and one of three local banks in which the European Bank for Reconstruction and Development has an equity stake.

"There is a great need for more imaginative financial solutions and products," says a western banker. "By now, for example, the state banks should all be going in for debt for equity swaps to help tackle the problem of bad debts."

The government's continuing influence over state banks, as well as inadequate regulation and legislative gaps are among the factors behind the sector's present problems.

For example, analysts say the biggest crisis to hit the sector to date – the insolvency of Dacia Felix, once a leading private bank – could have been avoided had action been taken earlier.

While irregularities at Dacia Felix first surfaced in the bank's 1994 balance sheet, it was not put under central bank supervision until last November and its management was only replaced this March. Meanwhile, the central bank has had to pump into the bank 1,000bn lei ($330m) – a huge amount in a country where the average wage is less than $100 a month. The bank's main problems stem from bad loans made to companies linked to one of its largest shareholders, Sever Muresan, a former Romanian tennis player.

Mugur Isarescu, central bank governor, admits the bank was slow to tighten supervision but says the legal framework and the need to protect small investors gave the authorities little room for manoeuvre. He says a deposit insurance scheme to protect savings will be created over the summer and that the authorities will introduce regulations enabling banks to be declared bankrupt. "Strengthening banking supervision is our most important policy goal at present," he says.

Similarly, the securities commission is tightening regulation of mutual funds, after a liquidity crisis and suspected insider trading at FMOA, once the country's leading investment fund. Like Dacia Felix, the fund was created in a legislative vacuum – it was set up two years before the securities commission even existed.

Although, confidence has plummeted, analysts welcome the authorities' apparent determination to get tough. "It's good that these problems emerged now. Later on they could have been more dangerous," says Valeriu Velciu, president of Unicapital, a local securities' company and member of the Bucharest Stock Exchange.

Despite the emergence of private, mutual funds and securities companies, the financial sector remains dominated by four large state commercial banks. The big four – Bancorex, the foreign trade bank, Banca Agricola, Romanian Commercial Bank and Romanian Development Bank – controlled 67 per cent of total assets of 37,000bn lei in the banking sector in May, according to central bank figures.

In 1994, the government pledged to privatise RDB, the smallest of the four, and another bank as a condition of a financial and enterprise sector loan from the World Bank. Two years on, this has not happened, ostensibly because parliament has yet to pass a bank privatisation bill.

However, analysts say the government is unwilling to give up control of state banks, especially in an election year. "The banks remain an important tool of a centralised economic policy," says a local banker. "The government is afraid it will lose too much control by selling the banks."

This year, for example, the state is to channel 1,300bn lei of subsidised credits to farming through Banca Agricola. This has increased to dangerous levels the bank's exposure to the sector while the government is believed to have often delayed reimbursements to the bank, contributing to a fall in the bank's capital adequacy rate to well below the 8 per cent required under Basle rules.

In addition, forex reserves at state banks, in particular Bancorex and RCB, were run down by this winter's unexpectedly large energy imports which are still handled by state monopolies and financed centrally.

Extra energy imports were one reason behind the country's forex crisis which caused the central bank effectively to close down the inter-bank forex market in March. The leu has since been held at an artificially high rate, passing through the 3,000 barrier in late June, at a time when it was already trading in the black market at about 3,600 lei to the dollar.

There are many explanations for the problems on the market, including the violation of forex regulations by some banks and the central bank's own acute shortages of hard currency. However, the country's politicians have not disguised their desire for a stronger leu while state banks have seen advantages in protecting some of their industrial customers (and thus their loan portfolios) from increases in the price of essential imports – despite the overall cost to the economy of an overvalued currency.

This led one western banker to say: "The exchange rate policy can only be seen in light of the upcoming election. It defies any economic logic."

■ **Politics:** by Virginia Marsh

The pendulum starts to swing

If local elections are a barometer, a change of government could be on the way

If the results of last month's local elections are anything to go by, Romania could at last be heading for a change of government in this autumn's general elections. The elections for mayors and local councillors – the first nation-wide polls for four years – were a victory for the opposition parties.

The governing Party of Social Democracy (PDSR), the rump of the group of former communists that has held power since December 1989, lost virtually every large city or town, including Bucharest, despite spending heavily on its campaign. It performed best in the countryside – its traditional stronghold and where nearly half Romania's population lives – but even in rural areas it lost votes to the left and the right.

The PDSR formed a minority government in November 1992 – supported in parliament by extreme nationalist and hard-line left-wing parties – after narrowly winning general elections two months earlier. It took office during the depths of the country's post-communist recession and its government was not expected to last. Few of the party's leading figures joined the cabinet. Instead it nominated "technocrats" such as Prime Minister Nicolae Vacaroiu, a former communist-era state planning official, to key positions.

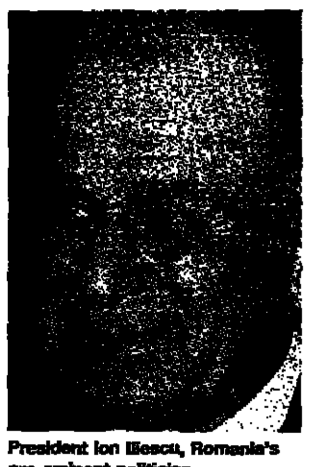
"After seven years of the same government one would expect the pendulum to swing in the other direction," says a senior western diplomat. "But this is also a faceless government that doesn't represent a clear ideology. It does not capture the spirit of the country or the way it is going. It's not a government that people can identify with. It lacks political leadership."

The PDSR describes itself as a centre-left party, aiming to create a "social market economy". Despite increases in real wages and a drop in official unemployment, however, the election results show the party is paying the price for governing during a period of plunging living standards and for failing to stimulate sufficiently the creation of jobs or improve the social security system.

Voters have also been dismayed by widespread corruption and the emergence of a small rich business class, several of whose members appear to owe much of their success to links with the ruling party.

"Our best asset is that people are very disappointed with this government," says Petre Roman, Romania's first post-communist prime minister and now the presidential candidate of the Union of Social Democrats (USD), a recently formed centrist coalition between his Democrat Party and a small Social Democratic party. "Corruption is huge. The system is really rotten," he says. "Social promotion is based on party membership and many people live in incredible poverty."


Emil Constantinescu, leader and presidential candidate of the CD


President Ion Iliescu, Romania's pre-eminent politician


Petre Roman, the presidential candidate of the USD

In addition, opposition parties have used the past four years to build up their organisations and are better prepared to face the elections than they were in 1992. "We have gone from a symbol of hope in 1992 to an institution of hope today. We have built up a national presence," says Emil Constantinescu, leader and presidential candidate of the Democratic Convention, a centre-right coalition and the main opposition group. "We still lack financial resources and access to mass media. But we can defeat [the PDSR] this year through better organisation and management."

The biggest obstacles to a change of government, however, remain division in the opposition and the distrust that exists between Mr Roman's technocrats – several of whom were part of the PDSR's predecessor party and government – and the Democratic Convention which includes many former dissidents and intellectuals.

The election results indicate that neither group would have the support to form a government alone. In addition, the results suggested the two liberal parties, formerly members of the Convention, would struggle to reach the 3 per cent threshold needed to enter parliament.

"In a campaign period, all parties are adversaries," says Mr Constantinescu. "However, we are disposed to make alliances, first with former Convention parties and then with the USD ... The USD is closer to us than the [PDSR]. It has an accent on rapid reform and on democratisation.

"The common experience of opposition has brought us together. But two main elements of the campaign are the poor government of the past six years and corruption. Members of this party [Mr Roman's] were in power for two of the six years ... we don't want to take over that debt."

Analysts add that Mr Constantinescu places too much importance on the presidential polls, which also take place in November, when it is clear the opposition has a greater chance of winning the parliamentary elections.

One of the governing party's main advantages is that President Ion Iliescu, Romania's pre-eminent politician, is likely to stand on its ticket and appears to have a good chance of being re-elected. Unlike Mr Iliescu, Mr Roman and Mr Constantinescu have announced their candidacy for the presidential elections. Mr Roman's charisma and his strong presidential campaign were behind the USD's better than expected results in local elections.

Although Mr Iliescu is careful to distance himself from some aspects of the PDSR government, including its co-operation with extremist parties, the party's prospects are likely to improve significantly once the president's campaign gets under way.

Legislative elections 1992: parliamentary parties

	Chamber of deputies	Senate
Party of Social Democracy in Romania (PDSR)[1]	117	49
Democratic Party (PD)[2]	43	18
National Peasant-Christian Democratic Party (PNTCD)[3]	42	21
Party of Romanian National Unity (PUNR)[4]	30	14
Hungarian Democratic Union in Romania (UDMR)[5]	27	12
Greater Romania Party (RM)	16	6
Civic Alliance Party (PAC)[6]	13	7
National Liberal Party-Democratic Convention (PNL-CD)[7]	2	4
National Liberal Party-Youth Wing (PNL-AT)[8]	11	2
Romanian Social Democratic Party (PSDR)[9]	10	1
Socialist Labour Party (PSM)	13	5
Others	17	4
Total	341	143

[1] Formerly the Democratic National Salvation Front, created out of a split within the National Salvation Front in March 1992.
[2] Formed from the National Salvation Front after the 1992 split. The PD in Jan 1996 formed a coalition, the Union of Social Democrats (USD), with the PSDR (9)
[3] The main component of the Democratic Convention (CDR), a coalition of centre-right political parties and civic groups.
[4] The PDSR's junior coalition partner.
[5] The party of Romania's 1.7m Hungarian minority. It contested the 1992 elections as part of the CDR but left last year.
[6] PAC, a liberal party, contested the 1992 elections as part of the CDR but also left last year. [7] Part of the CDR.
[8] Now known as Liberal party 1993 (PL'93). It contested the 1992 elections as part of the CDR but also left last year.
[9] Also once a member of the CDR, the PSDR is now part of the USD with the Democrat Party (2)

Source: EIU

■ **The port of Constanţa:** by Virginia Marsh

Rebirth of a hub

Modernisation currently under way will restore the port's central role in regional trade

The port of Constanţa, the largest on the Black Sea, is emerging rapidly from a sharp post-communist recession – exacerbated by the UN embargoes on rump Yugoslavia and Iraq, traditionally two important Romanian trading partners – and has embarked on a large modernisation programme.

Together with other projects, this should enable Romania to capitalise on its strategic location between east and west and to position itself on what is set to become an important trade route, linking the resource-rich Central Asian republics with Europe.

The modern port celebrates its centenary this year but for centuries Constanţa has been a leading regional trading and maritime centre. It was founded in the 7th century BC by the Greeks who named it Tomis and later passed to the control of the Romans, one of whose emperors, Augustus, exiled the poet Ovid to the city where he died in misery in AD 17. Although Constanţa, like other Romanian towns, has been blighted by the insensitive urban planning of the communist era, it remains rich in history and culture, exemplified by its mosque and ethnic Turk, Armenian and other minorities.

Today's port covers 3,600ha, divided into two areas – the older north port and a much larger, adjacent development, Constanţa South, which has yet to be completed.

The south port is at the mouth of the 65km Danube-Black Sea canal through which traffic passes on to the river, at the start of a waterway linked to Rotterdam by the Rhine-Main-Danube canal which was opened in 1992.

Vasile Pistolea, general manager of the port administration, predicts Constanţa will this year record similar growth levels to 1995 when traffic increased by nearly 13 per cent to 34.9m tonnes. This is still, however, well below capacity of 83.5m tonnes and levels of over 63m tonnes achieved in the 1980s.

Mr Pistolea says a priority is to extend container capacity – a category of traffic which grew by more than 40 per cent last year. The port hopes by early next year to secure $125m in financing from the Japanese government to build in Constanţa South the first phase of a new container terminal which is eventually due to have annual capacity of 800,000 20ft equivalent units.

> The aim is to add 100,000 tonnes of storage space to the north port's capacity

In addition, negotiations with the World Bank are taking place for funding for cereal storage facilities, also in the south port, in anticipation of increased grain exports from Romania and neighbouring rump Yugoslavia and Hungary. The aim is to add 100,000 tonnes of storage space, with modern drying and sorting equipment, to the north port's existing 90,000 tonnes capacity.

The port has already received an Ecu35m loan from the European Investment Bank to co-finance, with the Romanian government, the rehabilitation of the north and south breakwaters. From its own resources, it has modernised the telecoms network and is about to set up a modern information system which will link with international data networks.

Other plans include attracting private investment for a liquefied natural gas terminal as well as further development of the Agigea free trade zone in the south port where foreign and local companies are already building warehouses.

The port is managed and owned by the state but services and other activities have been or are due to be privatised. This includes the Constanţa shipyard, the country's largest, which employs 4,300 on a 70ha site in the heart of the north port. Since 1990, the shipyard has successfully reorientated sales, away from the now negligible domestic market, to exports, winning orders from South African, Belgian, German and Austrian companies.

Production ranges from river-going barges up to bulk carriers of 170,000 dwt and the yard has also developed its repair activities. It is investing in new machinery and is one of 550 companies in the privatisation programme in which 51 per cent has been set aside for a strategic investor. Sorinel Putinei, production manager, says employees, who already own 7.5 per cent of the company, hope to form a consortium with local investors to buy a majority stake.

Although the shipyard is profitable – last year it made 5.6bn lei on turnover of 103.9bn lei – it is likely to face increased competition from 2 Mai shipyard, 40km south at the satellite port of Mangalia. Last month, Daewoo, the South Korean industrial group, signed an agreement to invest $53m in a joint venture with 2 Mai. Daewoo's investment, which includes $23m in "know-how" as well as its thick order book, will help the yard lift production to six to eight ships a year, up from less than one at present.

"The Koreans' productivity is incredible," says Vasile Iorga, marketing manager. "In a few year's time this shipyard will be the best in Romania and one of the strongest in the region."

■ **Foreign borrowing:** by Kevin Done

A return to the euro fold

A eurobond debut has come as global investors turn to emerging market borrowers

Romania's return to the international capital markets during the past year after an absence of more than a decade marks a crucial development in the integration of the country into the world economy.

The borrowing programme allows the hard-pressed central bank to rebuild its foreign exchange reserves and to reduce its dependence on borrowing from the international financial institutions led by the IMF and the World Bank.

Romania was absent from the capital markets for more than a decade, after the deeply damaging decision of its late dictator Nicolae Ceausescu to repay the country's entire $10bn foreign debt in the 1980s.

Its debut on the eurobond markets last month has coincided with growing popularity of emerging market debt among international investors, anxious to pick up the extra yield available on paper from developing nation issuers.

The launch of its $225m three-year eurobond, up from the proposed $150m because of the level of demand, has provided a further milestone in the foreign borrowing programme. It was the sixth capital raising exercise since Romania re-entered the market early last year.

The National Bank of Romania raised $150m in a one-year syndicated loan arranged by Citibank in March, 1995 and a further $110m in an 18-month deal on the syndicated market last October, also arranged by Citibank. It followed those deals with a $50m syndicated loan led by Sanwa in April.

In between, the central bank raised $60m through a private placement of five-year floating rate notes in the US, led by Merrill Lynch which also led the $225m eurobond. And in May the bank raised Y52bn with a three-year samurai bond led by Nomura, Romania's first international bond offering since the end of the second world war.

Rates on all these borrowings have steadily fallen. The bank paid 2.75 per cent over Libor on the first loan. That fell to 2.25 per cent on the October loan and the February private placement, and to 1.75 per cent on the April loan. Rates also improved between the launch of the two bonds this year with a rate of 3.95 per cent over US Treasury bonds achieved for the eurobond.

Mugur Isarescu, governor of the central bank, says that Romania will be seeking to raise about $600m in additional funds during the remainder of the year, probably in the shape of a fourth syndicated loan, together possibly with a second samurai bond.

"Each time we want to set new benchmarks," he says. "We want longer maturities and we want to improve our costs." The bank aims to build reserves and obtain a better credit rating, he says, but also to break the ice for Romania in the international capital markets, so the bank can be followed by the treasury, or public utilities and commercial banks and companies.

Mr Isarescu also sees the borrowing programme as a way of improving prospects for increased foreign direct investment and portfolio investment, where Romania has lagged behind its regional rivals and which the governor regards as a catalyst for much-needed restructuring of industry.

Of the borrowing limit set by parliament of $1.5bn for this year, the bank has raised about $900m. Debt service payments total about $1.1bn for the year of which around half was paid in the first six months.

Romania's return to the markets has been supported by its first ratings earlier this year from all leading credit rating agencies. Standard & Poors, IBCA and Moody's each awarded their third highest speculative or non-investment grade rating (BB- for S&P and IBCA and the equivalent of Ba3 for Moody's).

The awards are the lowest for any of the central European countries rated by the agencies, well below the A category for Slovenia and the Czech Republic, the highest rated of the transition countries, and also well behind Slovakia, Poland and Hungary, which all have investment grades from some of the agencies.

Analysts regard the ratings as favourable, however, given that economic reform started later in Romania than elsewhere in the former communist bloc and that they reflect the country's low foreign debt and achievements in stabilising the economy during the past three years.

Profile: Ion Ţiriac: by Kevin Done

Playing a winning game

Ilie Nastase's former doubles partner is bringing his many skills to bear on Romania

While Ilie Nastase, Romania's most famous tennis player, was taking a severe beating in his abortive effort last month to become mayor of Bucharest, Ion Ţiriac, his former doubles partner, has been leaving a much more permanent mark on his country.

Since the collapse of communism Mr Ţiriac has been bringing his considerable business talents to bear on Romania, the country that he led with Mr Nastase to three Davis Cup finals, but which he largely abandoned for 25 years during the worst excesses of the regime of the former dictator Nicolae Ceausescu.

Until the beginning of 1990 Mr Ţiriac, once a top-class ice hockey player as well as international tennis player, had devoted his energies to building an international sports business career, first as coach and later as business manager and tournament promoter. His clients included Guillermo Vilas, Henri Leconte and most famously Boris Becker.

From his main base in Monte Carlo he is still deeply involved in the business side of international sport, bringing expertise to a number of leading tennis tournaments on the ATP and WTA tours including from this year the ATP world championship in Hanover, and he has a joint venture with Rupert Murdoch's News Corporation for marketing the world swimming championship.

In Romania, however, Mr Ţiriac has been seeking quite different opportunities in the fledgling capitalist market of the second most populous country in central and east Europe excluding the former Soviet Union.

His interests now span banking and insurance, car importing and distribution, airport services, commercial television, automotive components, lubricants distribution, real estate, advertising and media services.

He holds a 31 per cent stake and an option to buy up to 51 per cent in Commercial Bank Ion Ţiriac, one of the most successful privately-owned banks to have started up in Romania and in which the European Bank for Reconstruction and Development holds a 20 per cent stake. The bank has 18 branches around the country and plans for offices in New York and Frankfurt.

In addition, an insurance company, ASIT, Asigurari Ion Ţiriac, still in its first year of operations, has 15 branches and 35 agencies around the country.

At Bucharest's main Otopeni airport Mr Ţiriac holds a 25 per cent stake in Lutas, the airport services company responsible for both passenger and baggage handling. It is a joint venture in which Lufthansa also holds 25 per cent, Tarom, the Romanian state airline 37 per cent and the airport 13 per cent.

He moved early into the automotive sector and today holds 90 per cent stakes in the exclusive importer/distributorships for Mercedes-Benz (Autorom), Ford (Romcar) and Hyundai as well as in the Avis rent-a-car franchise (Aviroms).

Mr Ţiriac owns a one third stake in Rolem, a wood processing company near Brasov, which makes all the wood panelling trim for the Mercedes-Benz E and C-class cars.

He has a high profile investment in Pro TV, the first national, private commercial television network, which is controlled by Central European Media Enterprises of the US. Pro TV began broadcasting in December last year and is already outperforming the rival state-run channels.

Mr Ţiriac claims that his investment in Romania is now in excess of $50m and that about 4,000 people are working in the companies where he is a leading shareholder.

He is in Romania two or three times a month, but only for short visits. "I fly 320 days a year, my business is where I am at any moment."

While some of the emerging high-flying entrepreneurs in Romania are clearly intent on building business empires, Mr Ţiriac is different. "He is really a venture capitalist with a series of investments," says one former business associate. "He is an investor, he is not trying to run the businesses. He does not need the problems, the obligations, the hassles."

But Mr Ţiriac has still built a formidable operation, much of which is financed and controlled from a series of holding companies in the Netherlands bearing names such as Red Room, Power Development and Balaclava.

"He is one of the sharpest businessmen and tough as nails," says one banker in Bucharest. "What he does not know, he admits, and he hires the best people."

PROFILE Sanevit

Pioneer in raising finance

After securing a foreign loan, the syringe maker tapped local capital markets to help cover its costs

Sanevit is by no means Romania's largest private company but it is possibly its best known and, although set up just five years ago, is also among its oldest in the manufacturing sector.

Sanevit, which makes syringes at a plant in western Transylvania, was the first private Romanian company to secure a foreign loan after communism's collapse in 1989 – it borrowed $37m to import equipment from Italy in 1991.

It has also been a pioneer in tapping local capital markets to help cover its financing needs. It was the first private company to hold a nationwide public offer, raising the equivalent of $2.2m in a well-publicised offering organised by local broker Bursa Gelsor last summer, making it a household name.

In November, it became the only non-state company to list on the fledgling Bucharest Stock Exchange. Its majority shareholder is Arcasrom, a Romanian trading company.

"Apart from the foreign loan, our principle is to raise financing from capital markets to avoid paying high local interest rates," says Mircea Roman, general manager of the company.

In January, when its stock was still high, Sanevit completed a scrip issue, only to see its share price plummet as confidence in the exchange faltered and after the company decided to re-schedule its foreign debt.

It closed up 100 at 12,000 on June 27, a fraction of its all-time high of 71,000 last year. However, subject to market conditions, it plans to launch its first bond issue, possibly for 18bn lei ($6m) in the autumn.

Although private, the company was formed partly at the initiative of the Ministry of Health, which identified a need for a local disposable syringe producer and was prepared to give a government guarantee for the equipment loan.

Romania has a serious Aids problem, caused in part by poor hygiene and the re-use of syringes in the past.

Construction of the plant began in 1992 and production started in December 1994 with the first deliveries in March 1995. The company, which eventually hopes to produce about 180m syringes and 390m needles a year, has reported 444m lei net profit on turnover of 1.522bn lei for 1995.

> 'We're in a business where the market is not going to disappear'

Although the 1995 profit was above forecast, Mr Roman says that the company has not been able to work at capacity because of a shortage of local orders.

The Romanian market is estimated at about 300m syringes and 400m needles a year. However, Mr Roman says that when his team drew up the first business plan the company was not aware that a large part of the market was covered by imported syringes that were financed by the World Bank.

This caused the company to turn towards exports which have included sales to France and Hungary – which is just 50km from Sanevit's plant in the border town of Arad. Mr Roman adds that exports have provided the company with hard currency – something which is often in short supply in Romania – enabling it to pay for medical wrapping paper and the other imports it needs.

However, the World Bank programme is now drawing to a close and, in May, Sanevit won a substantial 10bn lei order from the ministry of health for 62m syringes and 2.89m needles.

"We've already achieved a great deal and have demonstrated what can be done in Romania by a private company. The good news is we're in a business where the market is not going to disappear," he says.

Virginia Marsh

The brewing industry: by Kevin Done

Foreigners stake out positions

Global producers are eyeing up what they see as a market with bright prospects for sales

Foreign direct investment in Romania has lagged behind many other countries in the region, but with the second largest population in central Europe after Poland it is attracting the attention of many of the big international consumer products groups.

Setting the pace are several of the world's leading beer producers, which are staking out positions in a market they believe is ripe for restructuring and development and where the prospects for strong sales growth are bright.

Groups such as Interbrew of Belgium, Germany's Brau und Brunnen and South African Breweries have taken majority stakes in existing breweries, while a new wave of investment has been triggered by Denmark's Carlsberg and Efes, Turkey's top brewer, which have chosen to develop new breweries on greenfield sites.

Before the arrival of the big international groups the Romanian brewing industry was highly fragmented with about 40 small, regional producers, hampered from developing national brands by poor product quality and distribution.

That picture is changing rapidly, however, as the international brewers engage in a growing competition to establish a dominant position in the Romanian market. These moves are part of wider strategies for expanding throughout central Europe with the leading companies also investing heavily in neighbouring Poland, Hungary, Bulgaria, the Czech Republic and Croatia.

Interbrew, the Belgian producer of Stella Artois, is one of the international pioneers in Romania. With interests in Hungary, Croatia and more recently Bulgaria, it made its first step into Romania in mid-1994 through the purchase of a 51 per cent stake in the Bianca brewery project in Blaj.

Now renamed as Bianca Interbrew Bergenbier, it began production in April last year of a beer developed for the Romanian market under the new brandname of Bergenbier.

Interbrew quickly followed this investment with the purchase of a controlling 51 per cent stake in the small Proberco brewery in Baia Mare (Maramures) in the north of Romania, which was producing under licence Hopfenkönig, a lager brand of the Eggenberger brewery of Austria.

Proberco is expanding capacity to 450,000 hectolitres a year, which will give Interbrew an overall annual capacity of close to 1m hectolitres, two nationwide brands and a market share of about 10 per cent.

The international brewers are expanding rapidly with the introduction of modern technology, improved quality and investment in national marketing, sales and distribution.

"The big problem was the variable product quality," says Gérard Fauchey, Interbrew external affairs director. "The maximum shelf life was only about seven days, because they did not pasteurise the product. The small local brewers could not distribute nationally because of the short shelf life."

The Romanian beer market is estimated at between 9m and 10m hectolitres a year, with a per capita consumption of 45 litres a year compared with 140 in Germany, 39 in France and 103 in the UK.

Competition is growing rapidly. Brau und Brunnen, the leading German brewery group and another early entrant, is the largest foreign brewer in Romania. Last year it acquired from the state an initial 51 per cent stake in the Pitber brewery in Pitesti, about 110km west of Bucharest. The stake has since been raised to 75 per cent. Brau und Brunnen claims a market share of 8.7 per cent and says it wants to raise this to 10 per cent. Its first significant move was the purchase of a stake in the Ursus brewery in Cluj-Napoca, in north-west Romania in 1992. It now has a shareholding of more than 60 per cent in this brewery, where it is developing Ursus as its national brand in Romania.

The Pitesti brewery is being modernised with plant and equipment from the group's shut down Elbschloss production site in Hamburg, Germany. This is being transported to Romania for re-assembly in Pitesti.

The most recent arrival in Romania is South African Breweries, which purchased earlier this year from the State Ownership Fund a 70 per cent stake in the Vulturul brewery in Buzau, north-east of Bucharest with a 500,000 hectolitres capacity and a malt capacity of 11,000 tonnes.

SAB is investing about $18m, including $10m for the modernisation of the brewing facilities, packaging, distribution and marketing in the next five years. It has agreed to maintain the current workforce level for two years.

Other foreign brewers such as Carlsberg of Denmark and Efes are to build plants rather than make acquisitions.

The most ambitious project is being planned by Efes, the leading Turkish brewer and a subsidiary of the Anadolu group. It has leased land at Ploiesti, an industrial city north of Bucharest, for the development of a plant designed to be its export centre for central and eastern Europe.

The group has announced plans to spend up to $140m during the next six years to create a capacity to produce up to 3m hectolitres a year, making it one of the biggest breweries in the region. Production is due to begin next year.

Carlsberg is taking a 20 per cent stake in a new venture Romanian Breweries Bereprod, along with Israeli and local Romanian partners. It is building a brewery at Pantelimon on the outskirts Bucharest with an initial 500,000 hectolitres a year capacity to produce under the group's Tuborg brand, the most popular western beer brand in Romania.

A visitor's Bucharest

Bucharest no longer merits the title "Paris of the East" – a nickname it earned in more prosperous times earlier this century – but the capital is rapidly becoming an easier and more pleasant place to visit.

The international airport at Otopeni, 20km north of the centre, is served by several leading airlines, while Tarom, the troubled national carrier, flies to most European capitals as well as to Beijing and New York. Most western nationals (although not US citizens) need visas but these can be purchased on arrival.

In theory, a taxi into the centre should not cost more than 1000 lei ($0.30) a kilometre, the rate for locals, but, even after bargaining, westerners are likely to pay $10 to $20.

Top class hotel space is still in short supply so book early. The newly-built Sofitel (tel: 00 40 1 2122998) in the World Trade Centre is the city's most luxurious hotel although it is not as central as the dowdy Intercontinental (tel: 6140400) or the recently-renovated Lido (tel: 6144930). The Sofitel charges $260 a night for a single compared with $240 at the Intercontinental and $220 at the Lido which also has a swimming pool. For better value, try the Majestic (tel: 2102746), a smart Turkish-run hotel in a quiet part of the centre which has just been modernised and charges $140 for a single.

Eating and drinking outdoors is a favourite local pastime and, as soon as the hot summer months arrive, 'terasas' spring up all over town. One of the best is La Premiera (tel: 3124397), behind the Intercontinental, which serves local specialities, as well as international dishes, and is run by the convivial Dr Teodor Oltean. Another is Doina (tel: 2226717), a historic restaurant in a villa on Kiseleff, an elegant, tree-lined boulevard running north of Piata Victoriei where the central government is based. Both also have indoor restaurants for the bitterly cold Bucharest winters.

Credit cards are accepted at an increasing number of restaurants and shops as well as at most large hotels but the exchange from lei will be made at the official rate which, in late June, was about 20 per cent lower than the rate to the dollar offered in the many licensed local exchange bureaux. The dollar and the mark are the most widely-used foreign currencies.

The capital has several interesting museums, notably the Museum of the Romanian Peasant (Muzeul Taranului Roman), set up after 1989 in the former communist party museum and has a wonderful, well-displayed collection of vernacular art, ranging from a wooden church and carved stone crosses to traditional costumes, icons and hand-painted easter eggs.

No trip to Bucharest is complete without a visit to the People's Palace or Casa Poporului, as it is known locally, the world's second largest building after the Pentagon. The palace, the construction of which consumed vast resources, epitomises the megalomania of deposed dictator Nicolae Ceausescu and is a chilling reminder of the suffering Romanians endured under his 25 year regime. Nevertheless, Casa Poporului is a modern wonder of the world and has to be seen to be believed. Tours can be arranged by appointment with the conference centre (tel: 3121780).

Virginia Marsh

■ **Banks:** by Tony Hawkins

Front-line inflation fighters

Commercial banks are lending at a discount below bank rate and treasury bill market rate

In Ghana's high inflation economy, the banks are in the front line in the battle to bring down the inflation rate and stabilise the cedi.

During the reform period, the government managed to slow inflation from 123 per cent in 1983 to 10 per cent by 1991, but much of this hard-won ground has been given up over the past five years and, by the end of 1995, inflation was back to 71 per cent.

The money supply target was overshot in every one of the past six years, invariably by a huge margin, while only once during that period – in 1991 – did government meet, or better, its inflation target. With evidence to show that high inflation rates have undermined economic growth in Ghana and with recent IMF research in Ghana concluding that rapid monetary growth translates into increased inflation with a six-month time-lag before the full effect is felt, the government is relying on monetary restraint to rein in the price increases during 1996.

Accordingly, in terms of the plan agreed with the IMF, the authorities will try to bring down the rate of monetary growth from 37.5 per cent at the end of 1995 to 5 per cent by the end of this year.

That is going to be a tall order and, bankers believe, one that is unlikely to be realised, though the performance in the first half of the year seems likely to be close to the targeted 20 per cent. But getting from there to 5 per cent looks unduly optimistic given the nature of the Ghanaian financial system.

In Ghana's cash-driven economy, currency in circulation is the largest single component of the money supply accounting for 36 per cent of broad money (M2) followed by demand deposits which contribute just under a third. Monetary growth is highly seasonal, accelerating in the final quarter of the year with cash payments to cocoa farmers.

This year's forecast 25 per cent to 30 per cent increase in the cocoa crop and the higher cedi price received by growers, partly reflecting currency depreciation, will fuel strong currency expansion towards the end of 1996 when the authorities hope to bring monetary growth down to 5 per cent.

In the final quarter of 1995, currency in circulation grew 48 per cent from its 1994 levels and if this is repeated this year, the monetary target will be missed by a wide margin.

In the first quarter, money supply grew almost 40 per cent from March 1995 levels and donors welcomed the subsequent upward pressure on interest rates in the money market which nudged up to 43 per cent in mid-June. Further increases are likely as the authorities seek to mop up excess liquidity in the market and restrain monetary growth.

It is an unusual – if not bizarre – situation in which commercial banks lend at a discount below both bank rate (45 per cent) and the treasury bill market rate. The result is that some of the banks are engaging in more money market treasury operations, taking deposits from customers and recycling them into treasury bills, rather than lending to customers.

Prime lending rates are below 40 per cent, which as one banker says, means that every time he makes a loan he is taking a loss on the transaction. In reality, of course, the banks make up their difference from fee and trading income, especially in the foreign exchange market.

This raises all sorts of doubts about the efficacy of monetary policy as a tool for fine-tuning the Ghanaian economy. If banks lend below the market rate because they must meet the needs of important customers and secure access to foreign exchange, and if currency in circulation is the driving force in monetary expansion, then interest rate policy may well turn out to be a limp-wristed business.

On the other hand, because the market is dominated by the state-owned banks – with small lending portfolios relative to their deposit base and investment ratios – interest rate policy does influence the behaviour of the larger institutions.

According to the most recent survey of Ghana's banks, carried out by Price Waterhouse Associates, the country's largest bank, ranked by assets, the state-controlled Ghana Commercial Bank, had a loan-to-deposits ratio of only 11 per cent, compared with 25 per cent for Barclays Bank Ghana and 24 per cent for Standard Chartered Bank, ranked third and fourth respectively in the banking league table.

In terms of deposits the two state-owned banks have more than 40 per cent of the market (measured by the operations of the 12 leading banks), with Ghana Commercial Bank (GCB) holding a 29 per cent market share and Social Security Bank 13 per cent. Barclays, with almost 14 per cent and Standard Chartered with 13 per cent, are the other two leading institutions, giving four banks approximately 70 per cent of the deposit market.

Ghana's leading banks (1994)

Banks	Deposits (cedis bn)	Advances (cedis bn)	Profit after tax (cedis bn)
Ghana Commercial	260.4	28.6	33.3
Social Security	121.0	21.3	11.5
Barclays	123.3	30.6	4.9
Standard Chartered	114.6	27.2	9.6
Merchant Bank Ghana	55.7	29.3	5.5

Source: Price Waterhouse Ghana Banking Survey 1994 (November 1995)

With spreads – between deposit and lending rates – of 20 per cent and more, banking is a highly profitable business, especially where cautious lending policies are adopted. Here, the state-owned banks are at a disadvantage, partly because of a huge branch structure and high labour costs (in the case of Ghana Commercial Bank), but also because they have borne the brunt of "political" lending to state enterprise and other poor credit risks. In 1994, GCB's staff costs were two thirds of its operating expenses compared with less than 60 per cent for Barclays and 56 per cent for Standard Chartered. Standard Chartered, which is driving banking "rightsizing" across Africa, has since cut its staff substantially and others are following suit.

When it comes to provisions, the state banks, GCB and SSB, had 1994 loan loss provisions of 43 per cent and 36 per cent of their loan portfolios respectively against 13.5 per cent for Standard Chartered and 6 per cent for Barclays. This explains why financial sector restructuring plays so important a role in the country's reform programme. the process started with the progressive liberalisation of the financial sector during the 1988-1991 period during which interest rates were liberalised, credit allocation targets abolished and fees decontrolled.

In 1989, more than 30bn cedis in bad loans was removed from bank balance sheets – most of it converted into bonds and the balance handed over to the Nonperforming Assets Recovery Trust (Npart) for recovery.

Phase two of restructuring includes the sales of shares in state banks – 42 per cent of GCB has been sold and 30 per cent of SSB – though the plan of selling a further 30 per cent in each case to a strategic (presumably foreign) bank to take over management is yet to be implemented. Another four banks are on the divestiture list.

Foreign banks are certainly interested in entering this profitable market – in recent years both Stanbic of South Africa and the Hong Kong Shanghai banking group have arrived – though the attraction is diluted somewhat by the depreciating cedi.

Whether a foreign bank would want to take on a retail-type operation without full management control is another matter, and if Accra really wants foreign banks to take a stake in operations such as GCB, it may have to rethink its strategy.

Ghana Commercial Bank: the country's largest bank, ranked by assets

■ **Industry:** by Tony Hawkins

Hard times for manufacturers

Inflation tops the list of problems, followed by a depreciating cedi and high interest rates

Industrialists, reflecting on six years of stagnation during which manufacturing's share in GDP declined from 10 per cent to some 7.5 per cent last year, are virtually unanimous about both the causes of decline and the solutions.

Inflation tops the list of problems, closely followed by its side-effects – a fast-depreciating cedi and high nominal interest rates.

Cadbury Ghana, which produces confectionery for the local market, bemoans the fact that more than 80 per cent of its inputs are imported. In an economy where real wages are falling and unemployment increasing, success depends on building market share, which Cadbury has managed to do very successfully. Cedi devaluation is helping by pricing direct imports out of the range of most consumers. But with widespread smuggling and evasion of customs duties and tariffs, effective protection is significantly lower in practice than in theory.

Unilever tells a similar story; it is less at risk from rising input prices – imports account for about a third of total costs – but its main competition comes from direct imports, and it, too, suffers from smuggling.

Unilever's experience says a great deal about the changing nature of the Ghanaian consumer market. Five years ago, between 60 per cent and 70 per cent of its sales were in urban areas; today that proportion has dropped to between 40 per cent and 50 per cent reflecting the recovery of the cocoa industry, the expansion of the mining and timber industries and the growth of self-employment in rural areas.

Unilever, which like Cadbury has bucked the trend in the manufacturing sector as a whole, attributes its strong performance also to building market share in a slow-growth consumer market.

Cost savings, productivity gains, a focus on quality and service, a sales effort thrust into the more prosperous rural areas and a measure of protection afforded by cedi devaluation have all contributed to this above-average performance.

Industrialists say that the established multinationals have fared better during this phase of de-industrialisation – measured by manufacturing's declining share in GDP – because they are less vulnerable to the high cost of funds than Ghana's small and medium-scale industries. More important, perhaps they enjoy the benefits of brand loyalty of the technological back-up of their offshore parents and of scale economies.

Claims that Ghana is being de-industrialised are rejected by donor agencies which argue that the country is simply undergoing the process of normal structural change from a situation of over-protection and inward-focused industrialisation. They point, too, to the strong growth of small-scale enterprises in rural areas, whose output is not captured in the official statistics.

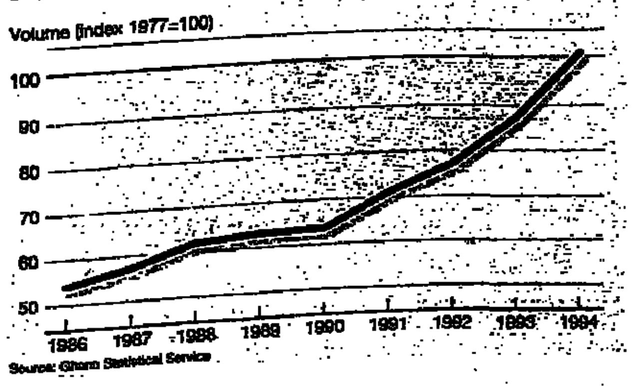
Whatever the past trend, it is clear that sustained economic growth and poverty reduction in Ghana depend on a strong manufacturing sector. The World Bank's medium-term projections assume that de-industrialisation will be reversed in the second half of the decade during which period manufacturing industry will keep pace with GDP growth of around 5.5 per cent annually. But according to the Accra-based Institute of Economic Affairs (IEA), this will happen only if Ghanaian industry can become internationally competitive so that it can build sales in export markets while fighting off competition from imports at home.

This sensible conclusion sits uncomfortably with official enthusiasm for micro and small-scale industries, which are unlikely to become competitive in export markets where style, quality and technology count more than production costs. Not only that, but all agree that manufacturing development in Ghana is constrained by infrastructural deficiencies and the scarcity of technical and managerial skills. The fact that the multinationals are finding it easier to survive and prosper in the post-reform era underscores the implausibility of small enterprise-driven industrial growth.

Finance is a serious constraint, too – and not just for the small operators. Nominal interest rates of 40 per cent and above are an important deterrent to investment and expansion, even for those able to access the funds. Many – indeed most – smaller businesses are shut out of the market altogether.

"The reality," says Dr Justice Addison, president of the Association of Ghana Industries, "is that banks find lending to the government (by buying treasury bills) almost risk-free, with good returns compared to a riskier private sector."

Industrial production



Source: Ghana Statistical Service

■ **Gold:** by Michael Holman

Predator may be stalking Ashanti

These are exciting times for the industry that is the largest foreign exchange earner

Ghana's gold boom continues apace. The sector's flagship company is thriving, but a foreign predator may be prowling.

Barely two years after Ashanti Goldfields helped blaze the African privatisation trail in one of the largest and most successful state divestitures the continent has seen, speculation is rife that South Africa's Anglo American Corporation is stalking the company.

The combination of a spate of acquisitions by an Ashanti management determined to resist, coupled with the fact that the Ghana government *still holds a 20 per cent stake* as well as a "golden share" makes the company a formidable target.

Whatever the outcome, it all makes for exciting times in the industry that has supplanted cocoa as the country's largest foreign exchange earner.

Gold exports earned $647m last year, representing around *40 per cent of total foreign* exchange earnings. Production is set to reach 1.7m ounces in 1996 and the sector is capable of doubling that output by early next century.

Investors from as far afield as Australia, Canada, Britain, and South Africa are taking part in the search for the mineral that was at the heart of commercial interest in the region a century ago.

The rise and fall and subsequent revival of the gold mining *in Ghana reflects the fortunes* of the country as a whole.

In 1960, just three years after independence, the country's gold production was 913,000 ounces.

By 1983, when Ghana was reeling under the consequences of failed socialist policies of founding president Kwame Nkrumah and a succession of military coups, output had fallen to 261,000 ounces.

Recovery owes much to the *Rawlings' government* decision in 1983 to implement a reform programme based on market-determined exchange rates and a supportive climate for the *private sector.*

Today, nine large-scale companies, including Goldfields Ghana, a subsidiary of Goldfields of South Africa, are taking *advantage of one of* Africa's most attractive investment climates.

The company's Tarkwa mine raised production to 23,000 *ounces, but development* is likely to concentrate on open-cast mining of reserves thought to exceed 7m ounces elsewhere on the Tarkwa concession.

A further 50 companies have mining leases, and another 150 own prospecting licenses, while 565 small-scale licensed mining operations make their own contribution to the gold boom – 90,000 ounces last year.

But far ahead of the field is *Ashanti Goldfields*, the Ghanaian-led mining house which accounts for the bulk of the country's production and which went public in 1994.

Although costs have been rising, at $208 an ounce, *Ashanti remains among* the lowest-cost one third of world gold mines.

Ashanti's operations are centred on deposits close to Obuai, *where its total ore reserves* and open-pit resources exceed 20m ounces, but estimates suggest they could be nearer 50m ounces, one of the largest in the world.

The company's gold production and reserves could well double in the next five years, say analysts, which would make Ashanti one of the world's top five producers.

In April 1994 Ashanti was *listed* on the London and Ghana exchanges, with the government of Ghana selling 30 per cent of its 55 per cent interest for $454m.

Earlier this year Ashanti became the first indigenous African company to be fully listed on the New York stock exchange, and was also recently listed on the Toronto exchange.

It has proved a landmark for a company founded 100 years ago, run down in the 1970s, and revived under the leadership of a former shift boss, Sam Jonah, now chief executive.

Production has soared from 240,000 ounces in 1986 to just over 932,000 ounces last year.

With investment running at $140m this year alone, the company is continuing to expand, rehabilitate, and modernise programmes at home as well as press ahead with the search for new assets abroad, though not without experiencing some setbacks.

While production at the company's *mine at Obuasi has* risen at a compound annual rate of 15 per cent since 1985, the target of 1m ounces from the mine in 1995 proved *optimistic.*

Technical difficulties and the severe drought early in 1995 limited production, and output at Obuasi is set to stay constant at around 900,000 ounces, say company officials.

But disappointment at failing to reach the 1m target was compensated by developments on other fronts – notably purchases which are turning Ashanti into a leading operator on the continent as a whole.

But Ashanti's rapid expansion is also seen by analysts as a defensive tactic against a possible takeover by Anglo American Corporation of South Africa.

Anglo got its foot in the door when it acquired 6 per cent of Lonrho, which owns 37 per cent of Ashanti, from Dieter Bock, Lonrho's chief executive, who says he plans to demerge the group's mining interests. Anglo also has the first right of refusal on Mr Bock's remaining 18 per cent of Lonrho.

The acquisition spree began at the start of this year, when Ashanti announced that its offer for Cluff Resources had been unconditionally accepted.

Cluff has a 75 per cent interest in the Ayanfuri Mine 50km south-west of Obuasi, with a forecast production of 40,000 ounces in 1996. Further licences in northern Ghana cover 900 sq km of the Najodi gold belt.

Cluff also manages the Freda Rebecca mine through the 79.6 per cent owned Cluff Zimbabwe, expected to produce 90,000 ounces in 1966.

But potentially the most rewarding asset *could* be Cluff's 90 per cent interest in the 220 sq km Geita area on the southern shores of Lake Victoria. Recent exploration has already identified reserves estimated at 405,000 ounces on one site. This is only a small proportion of what awaits discovery.

The Cluff deal was closely followed by a $100m agreed offer for International Gold Resources of Toronto, whose main asset is the right to a 45 per cent operating interest in the proposed Bibiani gold mine in Ghana.

This is expected to start up within two years, producing 250,000 ounces annually at a production cost of around $180 an ounce.

The third acquisition was an agreed $290m share exchange offer for Australia's Golden Shamrock Mines, which has a 70 per cent interest in the Iduapriem open-pit mine near Tarkwa, Ghana, producing between 120,00 and 130,000 ounces a year, and a 70 per cent stake in the Siguiri open-pit gold project in Guinea, with an option to increase this 85 per cent.

Cluff and other interests will allow the enlarged Ashanti group to come close to the 1.6m-ounce mark by 2001, says James Anaman, Ashanti's corporate affairs manager.

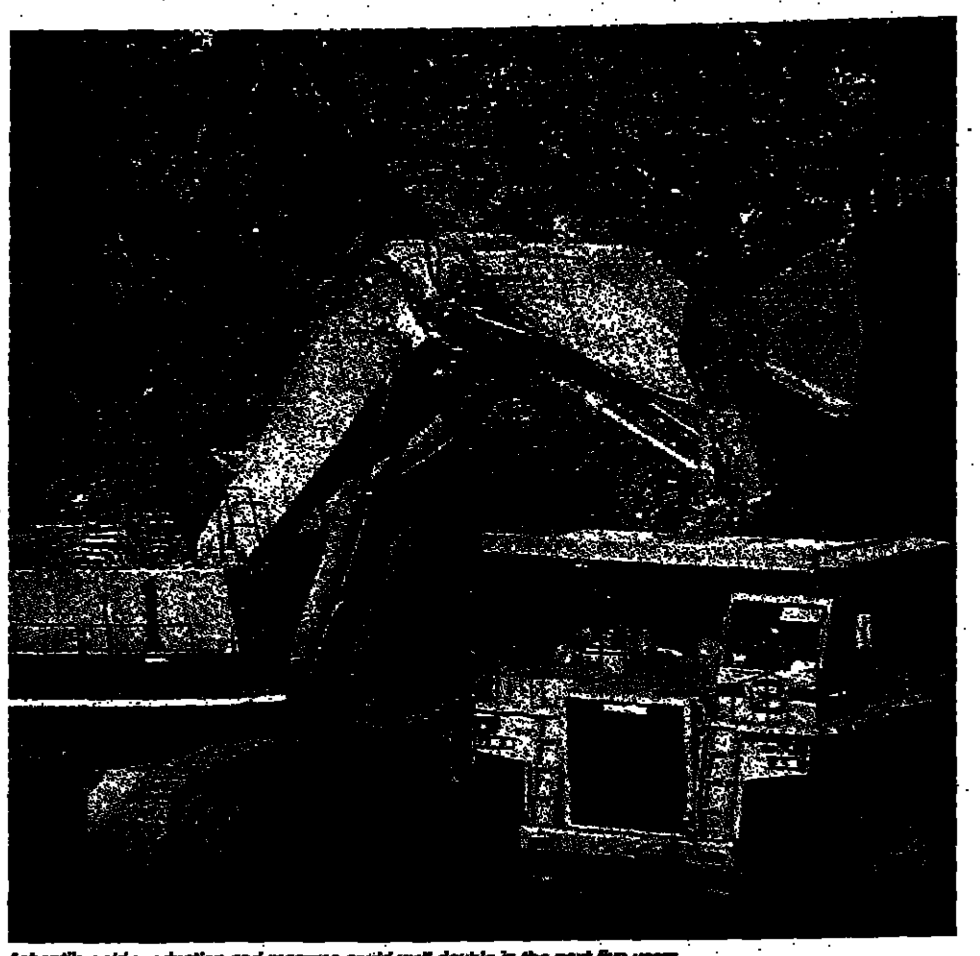
The attitude of the Ghana government *would be* an important issue should Anglo pursue a takeover bid. The government not only retains a substantial shareholding – just over *20 per cent, having* reduced its stake by 5 per cent earlier this year – but also has a "golden share" to block an unwelcome predator.

The wholly-owned subsidiary, Ashanti Exploration Ltd (AEL), continues to explore properties in Guinea, Mali, Niger and Zimbabwe, with applications pending in Eritrea, Ethiopia, Sudan and Tanzania.

Ashanti is also a partner with JCI of South Africa in Mali, and IAMGOLD, via a subsidiary called AGEM Ltd, *which started the Sadiola mine* in Mali in conjunction with Anglo American.

"Looking forward five years," says Sam Jonah, "we want this company to be the truly authentic, African multinational corporation, using its experience to assist as partners in the active development of the gold mining industry in Africa.

"In future there will be a handful of international mining companies operating worldwide and Ashanti will be one of them. We will be the leading player in *Africa.*"



Ashanti's gold production and reserves could well double in the next five years

■ **Privatisation:** by Tony Hawkins

Accelerated sell-offs

As well as bringing in revenue, privatisation has reduced the burden on the tax payer

Ghana's bloated state enterprise sector contributed substantially to the country's economic decline. Ten years *ago, there were some 347 state*-owned enterprises (SOEs), dominating the manufacturing, financial, mining and agricultural marketing sectors and *employing 250,000 people* (51 per cent of the formal sector workforce).

Average capacity in utilisation in state-owned industries was *18 per cent – about half* the national average – and loans to parastatals accounted for approximately 50 per cent of the non-performing assets of the banks. As recently as 1994, the SOEs owed $1.5bn to domestic lenders, three quarters of this being the domestic debts of leading utilities – the Volta River Authority, Ghana Telecom, Ghana Ports and Harbour Authority, *the Volta Lake* Transport Co and the Electricity Corp of Ghana.

Ghana's privatisation programme, formally launched in 1988, *has only recently* gathered momentum. Indeed, in the first five years of the programme (1989-1993), privatisation proceeds were worth a mere 64bn cedis, but with the sale of 30 per cent of the government's stake in Ashanti Goldfields in 1994, which brought in 379bn cedis ($316 m), receipts by the end of that year totalled 511bn cedis ($485m).

Much of the early divestiture activity took the form of liquidations (64 per cent of the total in 1990), but by 1994 this ratio had fallen to 20 per cent while outright sales accounted for half of the SOEs divested – the remainder being joint ventures, lease agreements and the sale of shares.

By the end of last year, 195 of the 347 SOEs had been processed. Seventy-nine of the sales had been completed while 31 had been taken over by pri*vate owners and partly paid for* and 85 were still awaiting final purchase agreements. Foreign buyers were involved in about half of the transactions.

It has been a painful process for some, with an estimated 40,000 parastatal workers being laid off during the initial (1988-93) period, reflecting the large number of liquidations. *However, in the past two years* as sell-offs replaced liquidations, there were only 5,000 redundancies.

> Ghana's privatisation programme has only recently gathered pace

As well as bringing in reve*nue, privatisation has reduced* the burden on the tax payer with subsidies and net lending to parastatals declining to 13 per cent of current government spending last year from 19 per cent in 1990. There are numerous reports, too, of improved performance such as that by the Gihoc Metals Co, which after being privatised cut its work force to 45 from 125 while more than doubling output to 1,200 tonnes a year from 500 tonnes previously.

The banking sector has been rationalised with the sale of shares in the country's largest bank, Ghana Commercial Bank, and the State Security Bank (SSB). The strategy was to sell 30 per cent of the shares to private investors via the Accra stock market, and finding a strategic investor for another 30 per cent leaving the government with a maximum of 40 per cent of the equity. *The SSB sell-off 15 months ago* was less than successful with buyers being found for only 21 per cent of the 30 per cent offered through the market.

The *Ghana Commercial* Bank issue was much more successful and the government has sold 42 per cent of its stake, but no strategic investor has yet been found for either bank, which is hardly surprising since a foreign bank would almost certainly want clear control of the business.

Approximately 150 enterprises remain to be sold and the government recently signalled its intention of accelerating the process with the outsourcing of the divestment process for seven enterprises to private sector consultants and agencies. Contracts are currently being drawn up for another eight SOEs to be handled in a similar fashion.

The World Bank has provided a $70m private sector adjustment credit to fund the privatisation of a further 114 enterprises, including four important strategic operations and 46 medium-sized businesses. The ones likely to attract greatest attention are Ghana Telecom, due to be divested by the end of this year, and the Mim Timber Co. There is likely to be much less interest in the State Housing Corporation and the State Insurance Corporation.

The scene at the New York Stock Exchange when Ashanti was listed earlier this year

■ **Stock Exchange:** by Tony Hawkins

Sparkle starts to fade

The market continues to lag both inflation and the devaluation of the cedi

After two sparkling years in which share prices rose 116 per cent in 1993 and 124 per cent the following year, Ghana's fledgling stock market has run out of steam.

Last year, the GSE All-Share index rose only 6 per cent taking market capitalisation to 2,400bn cedies ($1.6bn), but *trading volumes declined* sharply, falling 40 per cent to 56m shares.

Domestic buyers were deterred by the combination of rapid inflation and sharply higher returns available in the money market.

In the first half of the year, too, many investors were attracted by the promise of 30 per cent monthly interest from the so-called "Wonder Banks" – non-bank financial institutions.

Predictably, these operations were short-lived and their activities ceased in mid-1995. Foreign investors stayed out of the market, too, partly because the international institutions were looking for much larger parcels of shares than were available in Accra's highly illiquid market, but also because cedi *depreciation* undermined hard currency returns.

Since its inception at the end of 1990, the GSE has attracted 20 listings, of which Ashanti Goldfields (AGC) is far and away the *star performer.* AGC's market capitalisation on the GSE in mid-June was just below 2,800bn cedies or 87 per cent of the entire Ghanaian stock market.

The second largest company is Ghana Commercial Bank (GCB), capitalised at 110bn cedies or 3.4 per cent of the total, followed by Standard Chartered Bank with 81bn cedis (2.5 per cent). Social Security Bank and Unilever Ghana account for a further 113bn cedis (3.5 per cent), leaving the rest of the market, comprising 15 listings, to make up the balance of around 3.5 per cent of the total.

The exchange has caught the public's imagination, with the 33,000 Ghanaian investors participating in the Ashanti privatisation, and 25,000 buying shares in Social Security Bank. In the most recent sell-off, more than 70,000 individual investors bought shares in the GCB issue which was 38 per cent oversubscribed.

There has been relatively little buying by domestic institutions other than the state-owned *Social* Security and National Insurance Trust which is by far the largest local operator in the domestic money and capital markets. *Foreign institutions, which* own a substantial share of Ashanti – one estimate is that at least three quarters of Ashanti is owned offshore with most of the 25 per cent or so held in Ghana, being the government's stake – have been active in the past, especially in 1994 period when dollar returns on the GSE exceeded 70 per cent.

The foreigners are looking for substantial parcels of shares which tends to mean participation in new issues and especially privatisation offerings. The Ghana Telecoms offer, expected by the end of the year, is likely to attract significant foreign buying, depending on who gets the nod as strategic partner and how much of the offer is targeted at offshore buyers.

In the meantime, the market continues to lag both inflation and the devaluation of the cedi, with the index gaining only 14 per cent in the first half of the year against *estimated inflation since December* of around 20 per cent and a 12 per cent currency depreciation. A combination of new offerings, and lower inflation and interest rates is needed for the market to regain some of its 1993/4 momentum.

■ **Cocoa:** by Michela Wrong

Bumper bean crop expected

Ghana's cocoa continues to enjoy a reputation as the best in the world

If the free market economy is premised on the belief that the best way of ensuring future efficiency is to reward good performance, the maxim appears in danger of being ignored when it comes to Ghana's cocoa industry.

This crucial national sector, which shrank by 60 per cent between the early 1960s and mid-1980s as a result of poor producer prices, high taxes, drought and bush fires, is now looking better than it has for decades.

Output last year was 309,000 tonnes, the highest for 20 years, and the government is predicting a bumper crop of just under 400,000 this year. Coming second only to gold in terms of foreign exchange earnings, the sector earned Ghana $433m in 1995.

Producer prices were last month raised to 1.2m cedis (710 dollars) per tonne, ensuring farmers who once received 15 per cent of the world price now get 51 per cent. Cocobod, the once overstaffed government board, is now a lean institution run by a fraction of its original employees. Ghana's beans continue to enjoy their reputation as the best in the world.

Despite such achievements, the Bretton Woods institutions *overseeing the country's structural* adjustment programme are pressing hard for further reform in the face of strong resistance from a government understandably sensitive to any measure affecting a sector on which a quarter of the population depends.

The irony is that the government and industry experts are not the only people arguing that the premium fetched by Ghana's cocoa beans on the world market may well justify retaining the controversial status quo.

A group of independent consultants asked by the World Bank to weigh up the pros and cons of changing the current system, under which internal marketing has been liberalised but external marketing remains in Cocobod's control, recently concluded that the existing monopoly should be retained.

The British consultancy's preliminary findings were bluntly rejected by the World Bank, which sent them away to think again. An Interna*tional Monetary Fund (IMF)* internal document, while insisting that the Ghanaian government had "indicated its desire to remove the Cocoa Board's monopoly", concludes: "the government has asked the consultants to undertake a more in-depth analysis of the issues involved."

An interview with Dr K.J. Adjei-Maafo, head of Ghana's Cocoa Policy Unit, paints a slightly different picture. "An independent group is telling us that the system we have now is the best and the World Bank is refusing to accept it. If you pay for a job to be done and then say you won't accept it because it doesn't go in your direction, it's not fair," says Dr Adjei-Maafo.

The government's reluctance to privatise external marketing, despite World Bank prodding, is based largely on the problems that have accompanied the liberalisation of internal marketing. Since 1992, private buyers have been licensed to purchase beans from farmers, once Cocobod's exclusive *right, and 12 buying companies* now handle a quarter of the crop.

The result, says Joe Atiemo, Cocobod's chief executive, has been a noticeable drop in quality. With a bevy of rival buyers competing for produce, farmers are under pressure to sell quickly and some beans are being transported before they have been properly fermented, then stored in substandard warehouses.

"With some buyers offering cash, stealing cocoa also becomes profitable. The farmer now has a security problem and to limit the risk he may try to transport cocoa before it is ready," says Mr Atiemo.

He says Cocobod's quality checking system means low quality beans are being caught before export and processed locally, ensuring cocoa being sold to the international market retains its quality. "The buying companies are on a learning curve and as a proportion of the crop the problem is insignificant. But if we grow complacent it could get out of *hand.*"

The next few years are likely to see a winnowing out, with several buying companies deemed to have behaved irresponsibly expected to lose their licences.

But the problems remain significant enough to warrant a pause for thought before plunging headlong into further liberalisation, argues the head of the Cocoa Policy Unit. He cites the fall in standards experienced in other African cocoa-producing countries which have swallowed the World Bank medicine – such as Benin, Nigeria and Cameroon – as lessons Ghana, so much more dependent on cocoa in terms of revenue, needs to learn from.

"At the moment we are containing the problem internally, but that doesn't eliminate it. The World Bank should give us a breathing space to work out those problems before we tackle external marketing. We just need a bit more time," says Dr Adjei-Maafo.

Although according to the *IMF the government is meant* to deliver its judgment on cocoa sector reform by end-September, there is another good reason to stall.

In the forthcoming elections, President Rawlings is expecting to score far higher in rural areas, whose voters he has wooed over the years with fertilisers, pesticides, electricity and feeder roads, than in the opposition-dominated cities. Any changes that would alarm the farming community risks seriously damaging his electoral prospects.

"As a government we have concentrated on rural areas and that is what is going to bring us back to power," acknowledges Dr Adjei-Maafo. "If I implement measures unpopular with the farmers, I lose votes for the president."

A checking system ensures that cocoa being sold to the international market retains its quality

■ **Tourism:** by Michael Holman

Painful past recalled

The Slave Route project is at the heart of efforts to promote Ghana as a tourist destination

Ghana is turning its painful past to advantage as it prepares to promote tourism.

Castles built between the 15th and 18th centuries by the colonising powers, and which served as embarkation points for the slave trade, have become the focal points in a pilgrimage in which African Americans are tracing the route their forefathers followed.

More than 50 weather-beaten castles built by the Portuguese, Dutch, Danes, *Germans,* Swedes and British dot the country's coastline, and three have been designated by Unesco as World Heritage sites – St George's Castle and St Jago Fort at Elmina, and Cape Coast Castle at Cape Coast.

The Slave Route project, as it is known, inititiated by the World Tourism Organisation (WTO), is at the heart of Ghana's efforts to promote the country as a tourist destination.

Already the sector is proving an important source of foreign exchange.

Tourist arrivals have risen from 85,000 in 1985 to 271,000 in 1994, bringing in $222m according to the study.

An estimated 286,000 came to Ghana last year, but many of *these visitors, however, are* Ghanaians resident abroad, who on arrival stay with friends and family, and thus contribute comparatively little to the spin-off businesses that help generate revenue – souvenirs, local handicrafts, and the restaurant and hotel trade.

The industry target is 400,000 for 2000, and 1m in 2010, generating net foreign exchange earnings of $1.25bn in 2010 – a highly optimistic figure given the current state of the sector.

The country has a long way to go before tourism takes off, as a 400-page study prepared with the assistance of the WTO and United Nations Development Programme makes clear.

"The central region that has the major developed attractions of Cape Coast and Elmina Castles and Kakum National Park, has only about 500 rooms, with no hotels of three star or above, and most rooms in the 1-star or budget categories," comments the study.

In the country as a whole, only about 750 rooms – 8 per *cent of the total – are in the* three-star and above category, and nearly all of those are in the capital Accra.

Half the total rooms available are not considered suitable for international tourists.

Yet, with appropriate investment and management, Ghana could make more of what it has to offer. As well as the castles dotted along the coastline, the country boasts some fine beaches, several game parks, a low crime rate and a tradition of hospitality to visi*tors.*

But the poor infrastructure needs to be radically improved if the country is to meet the standards expected by international travellers.

The Mole National Park, for example, the largest of the national parks, covers nearly 5,000 square kilometres of rolling savanna and rivers and streams, with elephants, buffalo, several species of buck, lion, and leopard within its boundary.

But the lodge needs upgrading, as do the viewing tracks, and only a few thousand visitors a year make the journey.

More could also be made of the huge Volta Lake, with only one comfortable hotel on its shores – at Akosombo – while consultants have also recommended a variety of ways of attracting visitors.

These ideas range from providing comfortable carriages on the railway from Accra to Takoradi and Kumasi, which takes in a scenic stretch of the country, to deep sea fishing and cruises on Lake Volta, as well as cultivating niche markets, such as bird-watching *expeditions.*

The requirement that visas be obtained before arrival is a deterrent for would-be tourists, notes the report, adding that a further disincentive to would-be visitors is the fact that the cost of staying in the leading hotels in Accra "is also relatively high when compared to the quality level of facilities and services provided".

The beaches are often enticing in appearance

■ **Politics:** by Michela Wrong

Rawlings faces tougher test

The hot-tempered president confronts an opposition still seeking unity in the elections

Six months after the event, Ghanaians are still talking about it: the infamous cabinet meeting at which President Jerry Rawlings manhandled his vice-president, knocking him to the ground and – according to the latter's account – kicking him as he lay squirming, merely confirmed what most people already knew: that after 15 years at the helm their leader is still inclined to resort to unconventional methods when faced with dissent.

But the hot-tempered Mr Rawlings, who twice seized power at the barrel of a gun before ushering in multiparty democracy, will be under pressure to play by the rules in December. That is when Ghanaians once again go to the polls in what most observers agree will be a far tougher test for the president and his National Democratic Congress (NDC) than the 1992 elections.

Conveniently for the government, those polls were boycotted by the opposition, which claimed the electoral register had been tampered with, thereby handing the NDC control of the 200-seat parliament.

This time the playing field will be a little more level.

A new electoral register has been drawn up and donor funds made available for transparent ballot boxes, indelible ink and monitors. With five private radio stations now licensed and a bevy of anti-government newspapers in circulation, the opposition no longer complains about media access.

In addition, an already dangerously high inflation rate means the government can ill afford a repeat of the run-up to the last elections, when it granted the public sector large pay increases and awarded a spate of construction contracts, winning votes but sabotaging the economic recovery.

All this comes at a time in their history when Mr Rawlings is looking his weakest.

The once-united NDC is riven by dissent. Seventy-five MPs who were deselected at party primaries are flirting with the opposition or threatening to stand as independents unless they win "compensation". The clumsy handling of a drugs scandal at the Ghanaian embassy in Geneva and revelations of corruption among top officials have also tainted the government's image. But most damaging is the growing exasperation of a swathe of voters – city dwellers, businessmen and students – at the failure to achieve prosperity after 13 years of structural adjustment.

This section of the population, hard hit by unemployment and rising prices, blames Mr Rawlings for failing to create the much-promised "enabling environment" for the private sector, claiming he has favoured party supporters while harassing political foes.

Since the president's remarkable conversion from leftist revolutionary to market-driven reformer always appeared somewhat half-hearted, they argue, he never succeeded in convincing Ghanaians scarred by the past it was now safe to invest at home.

"Rawlings has worn out his welcome in a lot of places," says a diplomat. "His mishmash of revolutionary ethics and IMF prescriptions has taken its toll on the country and many feel it now needs to be brought to an end."

Yet most analysts believe the president is still likely to win, albeit with the prospect of a much-reduced parliamentary majority for the NDC, thanks to that traditional African stumbling block: a divided opposition.

The two main opposition parties – the New Patriotic Party (NPP) and the Peoples Convention Party (PCP) – are still debating how to avoid splitting the anti-government vote by presenting a single presidential candidate and joint candidates in the constituencies.

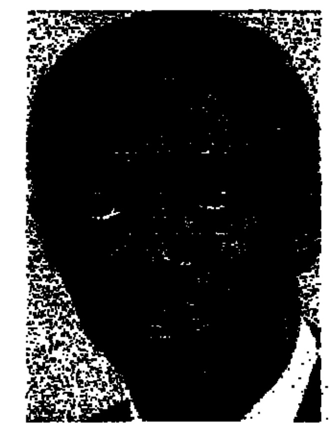
"If my party and the PCP agree to team up, a substantial chunk of opposition forces will have united," says John Kuffour, the lawyer-turned-businessman who has replaced Professor Adu Boahen at the helm of the NPP.

Admittedly, ideological roots stand in the way of such an alliance. The PCP is a grouping of quasi-socialist movements drawing inspiration from Kwame Nkrumah, Ghana's first president. The NPP, their long-time political rivals, belong to the right-wing Bustah-Danquahist tradition.

While such distinctions matter to the participants, the widely-accepted need to continue structural adjustment has emptied them of content. In any case, past quarrels have little meaning for the electorate, 70 per cent of whom are under the age of 50.

The real problem is one of party ego. Both the PCP's candidate, vice-president Kow Arkaah, and Mr Kuffour insist they are ready to take the number two slot on the opposition ticket. But as the talks continue, it is becoming increasingly clear both parties want the top slot.

Kow Arkaah: vice-president challenging Rawlings



John Kuffour: a businessman turned politician

NCP supporters argue that their movement is larger, better organised and the gravelly-voiced Mr Kuffour a far more impressive speaker. The PCP say Mr Arkaah, whose refusal to resign after his scuffle with the president won him enormous publicity, enjoys brand-recognition across Ghana and that – a minor sex scandal notwithstanding – his age and position as upholder of the Nkrumahist tradition win him automatic respect.

In addition, the courts are due to review a controversial legal ruling barring Kwame Pianim, a popular economist, from standing, risking a further muddying of the waters by producing a third possible candidate.

Kofi Totobi Quakyi, the information minister, acknowledges that this time around the government has a fight on its hands. But he argues that the base of government support lies in the countryside, where better returns to cocoa farmers, the expansion of the mining sector and the growth of the timber industry have improved living standards.

Opposition tactics may determine whether that base is enough to give Mr Rawlings another four years in power. "If – and it's a big if – we can form an alliance we can give the government a run for its money," says Mr Pianim. "So far the government has been losing the election. The opposition has not yet started to win it."

Fortress Elmina, where slaves were once kept Picture: Michela Wrong

Business guide

Stroll at dusk across the lush lawns spilling out from the Cocoa Research Institute clubhouse, a throwback to the days of the British Empire, and you are immediately engulfed in the melodic sounds of the African night: crickets, cicadas, frogs, and the crawing of crows as they settle for the evening.

The Institute is a two-hour drive from Accra, on a route that wends its way up the escarpment, through a series of cheerful villages, past the Aburi Botanical Gardens – planted in the 19th century – to culminate in the cool highlands of Tafo.

Like many tourist facilities in Ghana, the dilapidated guest houses, once the homes of British cocoa experts, fall well short of international standards, but the tranquillity offered by this former enclave of colonial scientific excellence is appreciated by weekend visitors fleeing the rigours of steamy Accra.

Escaping the capital – whether it involves driving to Tafo, the 15th century slave-trading forts dotted along the palm-fringed coast, the hotel overlooking the Akosombo dam, or the Kakum National Park – has become a priority since Ghana's economic recovery brought with it the combined disadvantages of congested streets and overbooked hotels. The city's infrastructure is visibly straining at the seams and working here is no longer as pleasant as it once was.

Time spent in traffic jams – allow more than half an hour between appointments if you have to travel across town – can be put to good use by renting a mobile phone from Mobitel (telephone 027 5510 00), although the facility is expensive. As in so many African countries, it is often easier to ring abroad than locally, but you pay through the nose for the privilege.

Hotels are best booked in advance as there is a marked shortage of top-class accommodation. Although President Rawlings recently reminded delegates attending an international investment conference that 15 years ago they would have had trouble finding rooms, telephones or even water for their baths, there are still only 650 rooms that fall into the three to five-star category.

Several hotels are being built or renovated, but the current dearth of competition means prices are high – as much as $250 a night.

If Accra has its hazards, violent crime – scourge of so many African capitals – is not one of them. Ghanaians are rightly proud of the fact that their capital remains a safe city to stroll around in, even at night.

Apart from the usual tropical vaccinations, travellers are advised to start a course of anti-malaria pills before they arrive. They may get conflicting advice from doctors over which type of medication is currently considered most effective against the increasingly quinine-resistant strain of malaria found here.

The beaches, often enticing in appearance, pose another risk. The waters off these shores are deep and prone to strong currents. Drownings are all too frequent and it is probably wisest to swim when other people are nearby and remain within one's depth.

Visitors should come well-equipped with calling cards and a wardrobe appropriate to a climate that is unremittingly hot and humid. Credit cards are accepted at the top hotels, but many restaurants and car hire agencies prefer to be paid in cash. Cars can be rented by the hour for 9,000 cedis and by the day for $55 or over.

Most visitors will need a visa before they arrive although there it is no longer necessary to declare foreign currency at Kotoka International Airport. There is a $20 airport tax on departure. The trip from the airport to the city centre costs about 6,000 cedis.

A useful brief guide to operating in Ghana, *Living in Ghana – Some Impressions*, is available from the British High Commission's aid section.

Databank, a company which includes members of the Ghana Stock Exchange, provides useful country and company analyses. They can be contacted on 669110, fax 669100.

Useful telephone numbers: (international code 233 Accra code 21)

Diplomatic missions: *UK* 221665, US 775347/9, Japan 775615, Germany 221311.

Hotels: Novotel 667546, fax 667533; Golden Tulip 775360, fax 775361: Labadi Beach 772501, fax 772520 (on the coast road, a little way out of town); Shangri-La 777500, fax 774873.

Restaurants: African – Country Kitchen 229187; Lebanese – New Club 400 223723; Indian – Haveli 774714; Chinese – Hinlone 772782, Dynasty 775496; French – Le Bouquet 772417; Italian – Bella Napoli 773389. Others: The Ritz 220917, *Chez Marie Lou* 774891

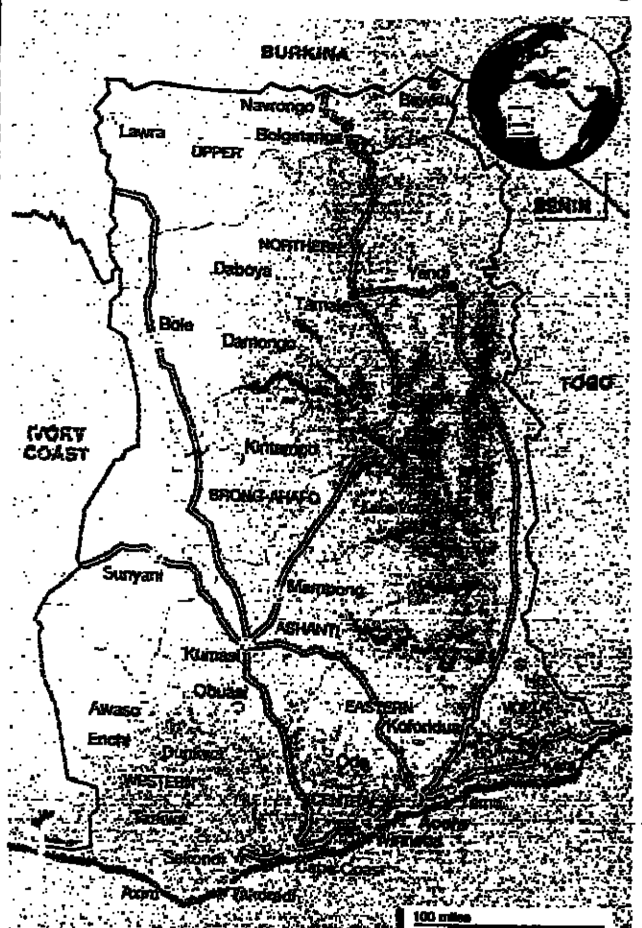
Airlines: British Airways 667900, Ethiopian Airlines 664856, Air Afrique 777414, Alitalia 220759, Ghana Airways 773321/773341, KLM 224020/224050, SwissAir 663336/662679

Banks: Barclays 664901/668491, Ghana Commercial Bank 664911/9, Standard Chartered 663560/664591.

Car Hire: Hertz 776171/224590, Avis 227744, Honesty Rentals 667546.

Advice and Information: Finance Ministry 665132/665587; Bank of Ghana 666902; *Divestiture Implementation* Committee 772049/773119; Stock Exchange 669908/669914/669935; Ghana Investment Promotion Centre 665125-9, fax 663801; Minerals Commission 772783/772786; Ghana Tourist Board 774663/665421; Centre for Policy Analysis 778035; Institute of Economic Affairs 776641, fax 776724.

Michela Wrong



FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK-Pvt Advisers 0800 414181 · Jersey 01534 71696
Private Clients 0800 414161 · 00 352 250404230
From O'seas (44) 1732 777377 · Hong Kong (852) 848 1000

	Selling Price	+or-	Yield Gr's
A$ Accum	A$18.919	+0.003	6.40
ASch Accum	Sch247.45	+0.02	2.10
C$ Accum	C$16.531	+0.001	3.70
DM Accum	DM38.099	+0.002	2.10
DFl Accum	DFl31.512	+0.001	1.60
ECU Accum	Ecu13.375	+0.002	3.30
FFr Accum	FFr68.553	+0.004	2.80
HK$ Accum	HK$119.85	+0.01	4.70
Lira Accum	L23108	+5	8.30
NZ$ Accum	NZ$38.949	+0.009	8.70
NKr Accum	NKr111.46	+0.01	3.40
S$ Accum	S$25.867	+0.001	1.90
SPta Accum	Pta2688.5	+0.4	6.40
£ Accum	£12.960	+0.002	4.70
Skr Accum	SKr119.72	+0.02	4.80
SFr Accum	SFr28.317	+0.001	1.10
US$ Accum	$23.234	+0.003	4.40
Yen Accum	Y2088.7	+0.1	0.10

Prices for dealing July 8

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda · 001 809 292 2700

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Lloyds Intl Money Market Fund Ltd
Sarnia Hse, Le Truchot, St Peter Port · 01481 724983
Lloyds Bank Fund Managers (Guernsey) Ltd

	Selling Price	+or-	Yield Gr's
Australian Dollar ϕ	A$35.185	+0.050	6.000
Canadian Dollars ϕ	C$28.351	+0.050	3.864
Deutschmarks ϕ	DM58.039	+0.000	2.406
Dutch Guilders ϕ	Dfl35.881	+0.020	1.851
ECU's ϕ	Ecu28.827	+0.040	3.919
French Francs ϕ	FFr189.748	+0.050	2.914
Italian Lire ϕ	L25983.026	+6.180	8.764
Japanese Yen ϕ	Y5328.352	+0.050	0.087
New Zealand Dollar ϕ	NZ$33.988	+0.220	9.029
Norwegian Kroner ϕ	NKr101.891	+0.100	3.685
Portuguese Escudos ϕ	Es3780.171	+0.800	6.698
Spanish Pesetas ϕ	Pta3595.712	+0.620	6.691
Sterling Class ϕ	£30.582	+0.040	4.869
Swedish Kronor ϕ	SKr108.735	+0.050	5.080
Swiss Francs ϕ	SFr80.649	+0.003	1.388
US Dollar Class ϕ	$41.578	+0.005	4.827
Managed Sterling	£19.207	+0.030	7.573
Managed US$	$25.407	+0.002	7.041

Dealing daily

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port · 01481 722989

	Init Chge	Selling Price	Buying Price	+or-	Yield Gr's
Island Global Fd	0	1855.4	1966.7	-31.5	0.09
Island Gold	0	4481.5	4729.2	-40.5	0.05
(Accum. Units)	0	8497.7	9007.8	-77.7	0.05
Island UK Fd	0	1021.8	1083.1	-7.8	3.51
(Accum Units)	0	2461.1	2608.8	-18.4	3.51

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey · 01481 707000
Prudential Money Funds Ltd

	Init Chge	Selling Price	Buying Price	+or-	Yield Gr's
Managed Sterling		157.5	157.5	+0.3	4.06
Managed Dollar	5	$14.30	14.31	—	3.81
Dollar Deposit		$10.07	10.08	—	3.97

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey · 01481 7107403

	Init Chge	Selling Price	Buying Price	+or-	Yield Gr's
FAB £ Bond	3½	£21.22	21.90	—	5.58
FAB US$ Bond	3½	$31.83	32.90	-0.16	5.60
FAB £ Global	3½	£17.51	18.10	-0.08	5.70
FAB US$ Global	3½	$29.74	30.73	-0.19	8.67

[illegible]

Rothschild Asset Mngmt - Contd.

Royal Bank of Canada Intl Money Market Fd

Saudi International (Guernsey) Ltd
Falcon High Income · $108.17

Schroder Investment Mngmt (Guernsey) Ltd

Stalwart Fund Managers (Guernsey) Ltd

UBK Asset Management (Guernsey) Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

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IRELAND (SIB RECOGNISED)

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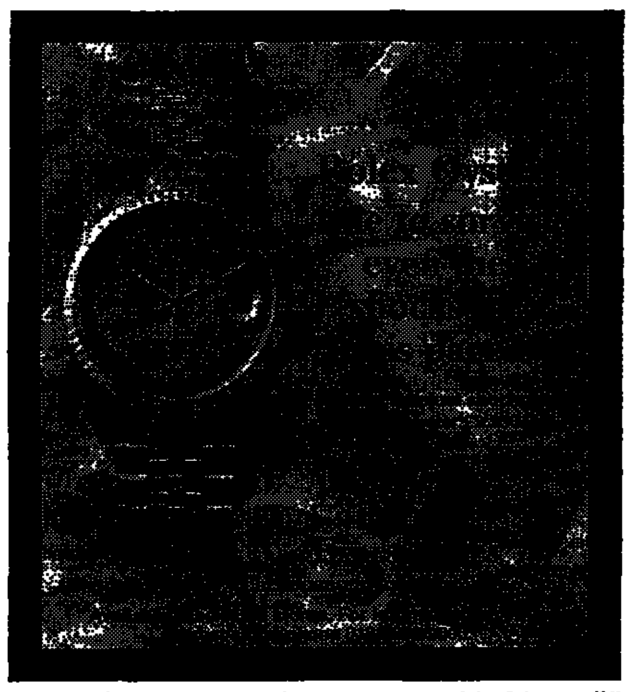

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

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JERSEY (REGULATED)(**)

[illegible]

Offshore Funds and Insurances

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Perpetual UT Mngrs (Jersey) Ltd

The Portugal Fund Limited

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

TSB Fund Managers (CI) Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Abtrust Fund Mngrs Luxembourg SA (u)

American Phoenix Investment Portfolios (u)

BAII Asset Management Ltd

Bank Von Ernst & Cie AG

Barclays Diversified Portfolio (u)

Barclays Inv Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

Chase Manhattan Vista Funds

Comgest SA

Commercial Union Luxembourg SA (u)

DS Investment Management SA

Danske Fund (u)

Den norske Bank

Dresdnerbank Asset Mngmt SA (u)

E.T. Investment Management Ltd

Eigleton Global SICAV (u)

Fidelity Funds (u)

Fleming Group (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav (u)

Frontrunner I (u)

Gartmore Luxembourg SA (u)

HSBC Investment Funds Luxembourg SA (u)

Henderson Management SA (u)

INVESCO International Ltd (u)

Jardine Fleming

Jupiter Tyndall Global Fund

Kleinwort Benson Japanese Warrant Fund

Kleinwort Benson Select Fund (u)

Liberty Newport World Portfolio (u)

Lloyds Bank Luxembourg

Lloyds Bank Luxembourg - Contd.

Mercury Asset Management S.A.

Midland Intl Circuit Fund SICAV (u)

Nikko Global Umbrella Fund

Nomura Global Fund (u)

PRICOA Worldwide Inv Portfolio Sicav (u)

Rothschild Asset Management

S-E-Banken Luxembourg SA

Sarasin Investment Fund SICAV (u)

Schroder International Selection Fd (u)

Scottish Equitable Intl Fund SICAV (u)

Sun Life Global Management Ltd (u)

Swedes Selection Fund SICAV

Templeton Global Strategy Funds

Threadneedle – Threadneedle Global Assets

Threadneedle Investment Management Ltd

LUXEMBOURG (REGULATED)(**)

Asian International Umbrella Fund (u)

Allianz Capital

Atlantis Sicav

Banque Scandinave En Suisse

Capel-Cure Myers Intnl Fd Sicav (u)

CS Fund International (u)

CSFB Carlsbad

Citicorp Investment Mgmt (Luxembourg) SA

Credit Commercial de France

Credis Investment Funds - Contd.

Daiwa Japan Small Equity Fd (u)

Dicam Worldwide Investment Fund

Emerging Markets Brewery Fund SICAV

Fidelity Investment (CI) Ltd

Foreign & Colonial Emerging Markets Ltd

Global Funds Management S.A. (u)

Goldman Sachs

HSBC NAFT Luxembourg SA

HYPO Capital Mgmt Invest Luxembourg SA

Invesco Investment Fund SICAV

Kleinwort European Bd Fd Management SA

Lloyds Bank Luxembourg (u)

Merrill Lynch Asset Management

MacPherson Global Investors

Morgan Stanley Sicav

Murray Dobsonel, Sicav

Nikko Bank (Luxembourg) SA

Pacific Basin Growth Fund

Pictet Group

Rosenberg Management SA (u)

Rothschild (Group Edmond de)

Scudder, Stevens & Clark

Security Capital US Realty

Societe Generale Group

State Street Luxembourg SA

Svenska Securities

Swiss Bank Corporation

TCW Luxembourg Funds

Templeton Emerging Asia

Templeton Russia & East European Debt Fd

Union Bancaire Privee

VLS Finance Ltd India

Van Kampen American Capital Navigator Funds

WP Stewart Global Growth Fund

World Trust Fund

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CMI Insurance Co Ltd

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Eagle Star Intl Life Ltd

Equitable Life (International)

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Midland Life International Ltd

Old Mutual Guernsey

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OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	469½xd	+1	556	444	4,848	6.6	17.0
Bulmer (HP)	[illegible]	379	—	625	442	308.7	2.7	18.2
Burn St Dist		101	+2	148	98	38.9	6.2	21.3
Glenmorangie A		765xd	—	775	600	104.0	2.0	19.6
Grand Met	[illegible]	440	+16	487	374	9,231	4.4	18.4
Guinness	[illegible]	474	+4	536	435	9,157	3.9	15.5
Highland	[illegible]	377	+1	408	315	382.5	2.7	17.8
[illegible]		768¼	-3½	879¾	621	8,096	0.8	31.5
Macallan-Glen	[illegible]	158	+1	217	150	159.5	1.2	32.4
Matthew Clark	[illegible]	780	—	803	580	671.1	3.6	—
Merrydown	[illegible]	138	-2	141	78	15.0	4.2	ф
Seagram $		£21⅛	-⅛	£28¾	£20⅝	5,823	1.3	—

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Baring Bkg Co 2nd Pf		[illegible]	—	[illegible]	[illegible]	6.31	19.8	—
Cater Allen	[illegible]	412xd	+5	[illegible]	379	134.3	9.1	ф
Close Bros	[illegible]	[illegible]	-1	392	281½	431.4	3.2	15.9
Gerrard & Ntl	[illegible]	[illegible]	-1	472	353	172.6	8.1	11.2
Hambros		[illegible]	—	262	183	415.0	4.0	—
7½pc Cv Pf		113	—	117	94½	145.6	6.3	—
King & Shaxson	[illegible]	164xd	-3	177	117½	43.3	8.9	12.7
Leopold J	[illegible]	[illegible]	—	403	353	22.7	5.9	[illegible]
Rea Brothers	[illegible]	54	—	67	44	28.1	2.3	[illegible]
Schroders	[illegible]	[illegible]	-10	1478	1185	2,015	1.5	18.6
N/V	[illegible]	[illegible]	-10	1190	830	[illegible]	1.9	14.5
Singer & Fried	[illegible]	112	-1	132	99	221.2	4.5	9.3
5½pc Cv Ln 08/14	[illegible]	£197½	-½	£144½	£1[illegible]	42.2	6.3	—

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Montanaro 5		135	—	180	100	10.1	2.9	38.2
Murray VCT	2	93	—	105	86	17.1	1.2	–
Nat'l Home Loans		100xd	—	109	90	87.9	1.2	4.4
Northern Venture	‡†	92	—	101	91	13.4	1.0	–
Oceana Consol	♣	145xd	–2	209	101	15.4	2.4	8.9
Pacamba		38	—	58	50	3.80	1.3	–
Pantheon	♣	73	–1	85	60	20.6	8.6	–
Perpetual	♣†	2325	—	2375	1465	658.9	2.5	27.0
Policy Portfolio		62xd	—	110	61	7.38	8.8	8.8
Prov Financial	♣	439	–3	*496	317½	1,240	3.8	18.3
Quayle Munro	♣†	185	—	185	137	7.40	8.8	19.0
Rathbone Brothers	♣	319	–1	338	310	78.8	3.9	16.0
Rutland Trust	♣‡	91½	–1¼	69½	27½	127.7	2.9	18.7
SEI		308	—	457	298	48.4	6.1	Φ
31¼pc Pref		48	—	53	48	1.73	10.7	–
SFC	♣†	72	–1	78	41	11.4	7.4	Φ
St James's Place	♣	119xd	—	134	100	320.8	3.5	8.0
Secure Trust		550	—	595	490	82.0	6.4	12.7
Swire Pac A HK$	Φ	641¼	–13½	607	445¼	5,295	2.2	21.4
Towry Law	♣	45	—	65	33	6.93	2.8	–
Trio Hldgs	♣	6½	—	12	3	5.43	–	Φ
Tyndall Australia		77	–1	98	55	74.2	3.6	–
Units		24	—	24	24	–	–	–
Woolwich	♣	286	—	288	158	430.2	4.3	15.4

PAPER, PACKAGING & PRINTING

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
AG Holdings	♣‡	154	+5	155	130	27.7	4.7	12.9
API	♣‡†	663	+3	698	457	191.9	1.9	22.7
Adare Printing	♣	473xd	—	535	350	50.4	1.4	Φ
Assoc Hygienic		129	—	140	58	34.1	–	–
Arjo Wiggins	♣‡	176	+3	233	147½	1,447	5.3	35.5
Ascom Cosmos	♣‡	195	—	265	193	29.8	4.0	11.2
Bath Press		15¼	—	18	12½	28.8	1.1	–
Bemrose	♣	383	—	*411¼	353	148.3	6.1	10.8
Bowater Inds	♣‡	158	—	173	138	114.4	1.3	26.2
Bunzl	♣	302	—	*315	162	219.9	1.1	26.5
Brit Polythene	♣	732	—	770	620	295.8	2.8	16.5

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½	—	£34½	£28½	1,884	2.8	Φ
Barlow	‡†	[illegible]	—	£10½	[illegible]	1,393	2.0	–
Gold Flds Prop R		124xd	—	170	124	12.7	7.2	9.3
MK Props		75	—	95	75	3.01	12.6	–
SASOL	♥	688	—	718	475	3,811	1.7	–
SA Brews		[illegible]	—	£28½	£17¼	3,540	2.0	Φ
Standard Bank		£25¾	+¼	[illegible]	[illegible]	3,094	1.6	20.7
Tiger Oats	†	910xd	—	1270	805	1,389	1.9	17.9
Tongaat-Hulett		813xd	—	1247	729	769.6	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a
FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

MARKET REPORT

Footsie holds steady despite Wall Street jitters

By Peter John

With equity gale warnings from over the Atlantic still threatening, London's dealers sailed into yesterday's session on a remarkably even keel.

Friday's late 114-point fall on Wall Street prompted a brief flurry of nervousness which saw the FT-SE 100 index marked down nearly 20 points at the start of trading.

But the reaction was cushioned by a number of short positions in the UK and the Footsie rallied throughout the morning. The principal rationale for a calmer outlook was the latest set of UK economic data, which pointed to a more subdued outlook for inflation, thus dampening concern that the next move in interest rates could be up.

The data showed that output in May was above some expectations but, more significantly, output prices in June were below most economists' forecasts.

Also, the latest Merrill Lynch-Gallup Survey showed that UK fund managers, while net sellers in the short term, are becoming more optimistic on the outlook for UK equities on a one-year view.

Thirdly, hopes of corporate activity were built into the market. Traders latched on to a leaked report discussing the prospect of merging the Guinness and Grand Metropolitan drinks divisions.

That combination of relief and support saw the Footsie gain almost 9 points by mid morning, with the help of a more positive attitude in the futures market. The contract on the Footsie which expires in September moved back in line with its estimated fair value. It had been trading at a sharp discount.

"Friday's situation on Wall Street has happened before and everyone is very wary about reacting too fast," commented one senior trader. "It is all very technical, and the real key is whether inflation is getting out of hand."

However, another dealer, who arbitrages between the US and UK, feels that past market rebounds following strong US job numbers might have lulled traders into a false sense of security.

"We are still short on balance and it will be some time before the position is corrected. But I would be very surprised if we didn't see Wall Street down below 5,450 soon, and when that happens I think we are really going to struggle," he said.

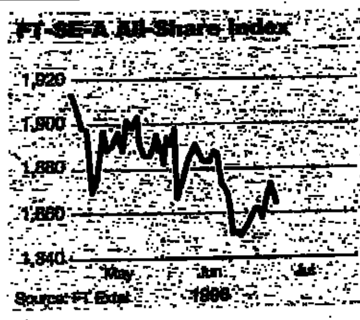
For a pointer to inflation, the market has to wait until Friday when provisional US consumer price data for June are published. The figures are expected to be the focus of the week as there is little happening in terms of UK corporate results or economic data.

That lack of potentially meaty information ensured that, in spite of its apparent insouciance at the start of trading, the Footsie watched Wall Street nervously. It lost its mid-morning gain ahead of the US opening and then traded back up again after the Dow opened stronger, and ended the day only 1.7 lower at 3,741.5.

On the other hand, the FT-SE Mid 250 index, which had avoided Friday's sharp falls, reacted belatedly with a slide of 27.7 to 4,339.5.

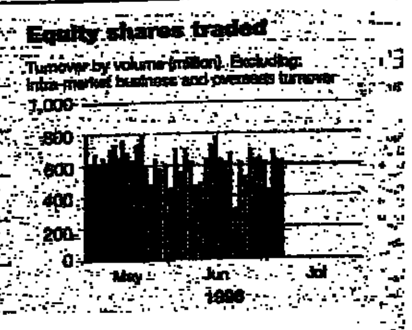
Turnover of 598m shares was split evenly between Footsie and non-Footsie stocks and was down from Friday's level when genuine customer business was worth £1.7bn.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3741.5	-1.7
FT-SE Mid 250	4339.5	-27.7
FT-SE-A 350	1881.5	-3.3
FT-SE-A All-Share	1864.78	-3.97
FT-SE-A All-Share yield	3.85	3.85
FT Ordinary index	2746.3	+2.4
FT-SE-A Non Fins p/e	16.85	16.86
FT-SE100 Fut Jul	3735.0	-3.0
10 yr Gilt yield	7.94	7.97
Long gilt/equity yld ratio:	2.16	2.16

Best performing sectors

1	Alcoholic Beverages	+1.9
2	Electronic & Elect	+0.4
3	Oil : Integrated	+0.2
4	Mineral Extraction	+0.1
5	Paper, Pckg & Print	+0.1

Worst performing sectors

1	Textiles & Apparel	-1.2
2	Household Goods	-1.1
3	Engineering : Vehicles	-1.1
4	Pharmaceuticals	-1.0
5	Investment Trust	-0.9

Spirits surge on bid buzz

Denials by Guinness that it had any intention of making a hostile bid for Grand Metropolitan, or of demerger, or selling its brewing interests, failed to extinguish speculation over the two stocks.

GrandMet rose 18 to 440p, the fastest moving stock in the Footsie, while Guinness put on 4 at 474p. The market mulled permutations of media reports that Guinness had asked Lazard Brothers, its lead merchant bank, to review the possibility of a £13bn takeover of one of its main competitors in the drinks industry.

One analyst said Guinness's denial did not rule out a merger and that it had signalled that, should there be a bid for GrandMet, Guinness might be interested in acquiring IDV, its drinks business.

However, he cautioned that should there be a merger between the two groups, there might not be a takeover premium for GrandMet shareholders and so shareholder value would not be maximised.

Nevertheless, the market was fairly unanimous in its view that the disclosure – and subsequent denial – had not helped Guinness, because it narrowed its options on demerger and highlighted the problems facing the spirits industry. By contrast, Lehman Brothers said that the story had focused attention on Grand Metropolitan's value.

The spotlight on the sector roused some speculative interest in Allied Domecq, which rose one penny to 448p. But an analyst said that if Guinness were not going to pursue GrandMet, with its strong stable of brands, it was unlikely to go for second best.

Glaxo dips

Positive comment from several brokers helped pharmaceuticals giant Glaxo Wellcome recover from an early retreat, following weekend news that it had lost the latest legal battle in the US to prevent competition for its top-selling anti-ulcer drug Zantac.

Having fallen to a low of 857p, the shares recovered to end the session just 8 off at 873p, in volume of 7.7m. Several analysts were keen to point out the ruling was not a surprise and many had in fact discounted such an outcome in their outlook for the company.

Losses in the stock were also limited by the prospect of the company making an upbeat presentation at this week's international conference on Aids in Vancouver. Positive news is expected on two HIV treatments – AZT and 3TC – and the company is expected to report developments on its new HIV product, currently code-named 1592, which is now in phase two of clinical trials.

One broker said: "Positive news is expected from Vancouver which should help underpin the shares."

Shares in Holliday Chemical jumped 11 to 144p, encouraged by a recommendation from SBC Warburg.

The broker is said to have set a 170p target for the stock and believes the company will benefit from the ruling on Glaxo because of its ability to produce Form 1 ranitidine, the active ingredient that Glaxo rivals are likely to use in launching a generic version of Zantac.

BoS ahead

In financials, the spotlight fell on Bank of Scotland. The stock firmed 3 to 244p, in trade of 3.1m, as Standard Life kicked off a series of presentations to help sell its 32.2 per cent stake in the group.

Vague talk of an Australian group being interested in taking on the whole stake continued to be heard in some quarters, while sentiment was given a further boost by BZW, joint global co-ordinator to the offer, which upgraded its forecast for the year to February 1997 from £589m to £625m.

Reports that Lloyds TSB is about to sell a string of high street bank branches continued to circulate in the market yesterday. There was no confirmation from the company but the shares improved 5½ to 335½p on the speculation.

Unigate rose 4 to 399p following the announcement of its proposed acquisition of Kraft's European margarine and spreads, which are manufactured in Italy and the UK. One analyst said: "It's a good deal which is earnings enhancing."

But the proposed deal adversely affected Geest, which has long been perceived as a possible target of Unigate. It fell 11 to 243p even though Unigate has not exhausted its cash mountain.

Lucas Industries came off 9 to 218p after the Sunday press gave some additional impetus to Friday's vague rumours suggesting a possible US counter-bidder was about to upstage the Lucas-Varity merger talks.

Dealers said there had been little feedback from Wall Street on the story. "This one looks to be City specific," said one engineering analyst. Lucas holds a shareholder information meeting on its planned Varity link on July 16.

Defence shares came in for profit-taking. British Aerospace shed 17 to 964p and Cobham 6 to 641p. A US broker was said to have tweaked its stance on Rolls-Royce lower. The stock gave up 2 to 225p in 7.5m traded.

The uncertain tone on Wall Street continued to undermine shares in mobile phone groups Vodafone and Orange.

The former, which has a US shareholder base of more than one third, eased 2 to 235½p as two-way pull propelled turnover up to 21m shares. Orange fell below its March flotation price of 205p for the first time, sliding 3½ to a new 52-week low of 204½p.

Cable and Wireless fell 7 to 408p following the shake-out in Hong Kong, where the market came off 2.6 per cent, the steepest one-day decline for almost four months.

General Cable lost 4 at 185p after news of the consolidation of Yorkshire Cable plus an equity financing. The moves stand to expand the group's equity base significantly.

The heat stayed on conglomerates, with Hanson and Cookson both moving lower in above average volume.

The demerger update from Hanson sparked initial excitement, as dealers marked the shares down on what was at first seen as negative accounting moves. They touched 167½p before closing a net ½ off at 171½p in 13m turnover.

Weak lately following a steady trickle of profits downgrades, Cookson slipped 8 to 258p in 4.5m dealt for a two-day fall of almost 6 per cent.

Allders rose 13 to 211p on the back of its extraordinary general meeting, where it talked of being able to return a "significant" amount to shareholders as well as like-for-like sales being 13 per cent ahead of last year. Analysts were divided as to whether a share buy-back or a special dividend would be the most advantageous.

British Airways closed with a gain of 4½ at 542½p as tentative hopes for an early settlement in the pilots dispute took hold of sentiment. "The two sides are still talking, that is the good news," said one transport analyst.

Copier group Eurocopy slid 15 to 74p in 20m trade, after 10m shares were placed on behalf of the founding family.

MARKET REPORTERS: Jeffrey Brown, Lisa Wood, Joel Kibazo.

FINANCIAL TIMES EQUITY INDICES

	Jul 8	Jul 5	Jul 4	Jul 3	Jul 2	Yr ago	*High	*Low
Ordinary Share	2746.3	2743.9	2761.4	2728.6	2737.0	2600.3	2885.2	2696.7
Ord. div. yield	4.06	4.07	4.04	4.09	4.08	4.10	4.12	3.76
P/E ratio net	16.25	16.22	16.31	16.12	16.16	16.26	17.25	15.96
P/E ratio nil	16.15	16.13	16.22	16.02	16.07	16.01	17.03	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2733.2	2738.8	2743.2	2752.3	2744.8	2742.5	2738.7	2742.4	2743.6	2752.3	2732.5

	Jul 8	Jul 5	Jul 4	Jul 3	Jul 2	Yr ago
SEAQ bargains	32,026	30,985	27,742	28,652	29,204	32,084
Equity turnover (£m)†	-	1736.6	1708.2	1860.9	2039.0	1774.2
Equity bargains†	-	37,405	35,248	35,178	35,245	48,581
Shares traded (mil)†	-	577.1	624.2	624.4	695.0	909.2

†Excluding intra-market business and overseas turnover.

	Jul 8	Jul 5	Jul 4	Jul 3	Jul 2	Yr ago	*High	*Low
FT-SE AIM	1079.20	1086.20	1081.50	1075.30	1077.30	-	1140.40	965.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	370	Total Highs	32	Total contracts	34,611
Total Falls	1,233	Total Lows	95	Calls	11,268
Same	1,202			Puts	23,343

July 8 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

LONDON RECENT ISSUES: EQUITIES

FT GOLD MINES INDEX

FT-SE Actuaries Share Indices — The UK Series

TRADING VOLUME

■ Major Stocks Yesterday

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 8 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jul 8 / Frs.)

[illegible]

CZECH REP (Jul 8 / Koruna)

[illegible]

DENMARK (Jul 8 / Kr)

[illegible]

FINLAND (Jul 8 / Mkka)

[illegible]

FRANCE (Jul 8 / Frs.)

[illegible]

GERMANY (Jul 8 / Dm.)

[illegible]

GREECE (Jul 8 / Drachma)

[illegible]

ITALY (Jul 8 / Lira)

[illegible]

NORWAY (Jul 8 / Kroner)

[illegible]

POLAND (Jul 8 / Zloty)

[illegible]

PORTUGAL (Jul 8 / Escudo)

[illegible]

SPAIN (Jul 8 / Pts.)

[illegible]

NETHERLANDS (Jul 8 / Fls.)

[illegible]

SWEDEN (Jul 8 / Kronor)

		+/-	High	Low	Yld	P/E
AGA A	113.50	-2.50	120	89	2.4	...
AGA B	112.50	-1.50	118	88.50	2.4	...
Abb A	704	-1	720	646	2.3	...
Abb B	699	-1	715	633	2.3	...
Asdom	153.50	+.50	183	136	3.3	...
AstraA	280	+5.50	325	245	1.1	...
AstraB	274	+4	340	243	1.1	...
AtlasA	126.50	+.50	131.50	96	2.4	...
AtlasB	127	+1	131.50	94	2.4	...
Autliv	203	-.50	220	145.75	2.2	...
Cels B	91.50	+1.50	219	76	7.7	...
Cust A	122	-1	142	113	3.5	...
EricB	335	-4	358	271.50	3.7	...

SWITZERLAND (Jul 8 / Frs.)

[illegible]

TURKEY (Jul 8 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Jul 8 / Yen)

[illegible]

HONG KONG (Jul 8 / HK $)

[illegible]

INDONESIA (Jul 8 / Rupiah)

[illegible]

MALAYSIA (Jul 8 / MYR)

[illegible]

NEW ZEALAND (Jul 8 / NZ $)

[illegible]

SINGAPORE (Jul 8 / S$)

[illegible]

SOUTH KOREA (Jul 8 / Won)

[illegible]

TAIWAN (Jul 8 / TW $)

[illegible]

THAILAND (Jul 8 / Baht)

[illegible]

AUSTRALIA (Jul 8 / Aust$)

[illegible]

AFRICA

SOUTH AFRICA (Jul 8 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jul 8 / Can $) 4 pm close

[illegible]

MONTREAL (Jul 8 / Can $) 4 pm close

[illegible]

INDICES

	Jul 8	Jul 5	Jul 4	1996 High	1996 Low
Argentina					
General(29/12/77)	(u)	17994.87	18414.21	18881.95 20/5	15628.81 19/3
Australia					
All Ordinaries(1/1/80)	2191.2	2230.8	2225.7	2328.80 28/4	2167.40 11/3
All Mining(1/1/80)	982.7	996.8	998.4	1118.48 8/5	982.70 8/7
Austria					
Credit Aktien(30/12/84)	369.76	372.17	372.10	394.69 31/5	352.78 2/1
Traded Index(2/1/91)	1076.72	1085.62†	1085.35	1142.51 28/5	975.27 2/1
Belgium					
BEL20(1/1/91)	1734.92	1750.73	1761.00	1773.26 28/5	1574.90 2/1
Brazil					
Bovespa(29/12/83)	(u)	62865.0	64321.0	64321.66 4/7	43991.60 2/1
Canada					
Metals Minls◆(1975)	(u)	5045.45	5101.08	5624.80 8/5	4687.47 16/1
Composite◆(1975)	(u)	5062.79	5086.39	5246.40 31/5	4730.70 15/1
Portfolio§§(4/1/83)	(u)	2496.19	2508.87	2595.65 27/5	2327.39 12/1
Chile					
IPSA Gen♥(31/12/80)	(u)	5726.70	5705.58	5894.33 8/1	5218.28 8/4
Denmark					
CopenhagenSE(3/1/83)	410.91	413.08	415.10	413.10 4/7	368.40 2/1
Finland					
HEX General(28/12/90)	2028.58	2027.23	2035.64	2070.42 31/5	1831.67 10/1
France					
SBF 250(31/12/90)	1423.02	1435.94	1449.08	1457.58 6/6	1289.16 2/1
CAC 40(31/12/87)	2078.05	2098.79	2126.81	2146.79 30/4	1867.85 11/1
Germany					
FAZ Aktien(31/12/58)	902.41	911.74	908.61	911.74 5/7	818.58 2/1
Commerzbank(1/12/53)	2599.3	2627.6	2618.10	2627.60 5/7	2370.20 2/1
DAX(30/12/87)	2551.04	2583.49	2577.39	2583.49 5/7	2284.86 2/1
Greece					
Athens SE(31/12/80)	906.04	904.15	904.38	1017.96 4/3	881.83 24/6
Hong Kong					
Hang Seng(31/7/64)	10890.05	11177.13	11181.82	11594.99 16/2	10204.87 2/1
India					
BSE Sens.(1979)	3730.72	3707.01†	3701.74	4069.28 18/6	2828.66 25/1
Indonesia					
Jakarta Comp.(10/8/82)	573.83	575.05	588.61	690.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2507.06	2522.51†	2519.28	2595.18 18/6	2294.61 2/1
Italy					
Banca Comm Ital(1972)	654.26	660.41	661.69	674.10 20/5	572.21 27/3
MIB General(2/1/86)	1108.0	1120.0	1122.0	1142.00 20/5	970.00 27/3
Japan					
Nikkei 225(16/5/49)	21984.94	22232.42	22292.91	22666.80 26/6	19734.70 13/3
Nikkei 300(1/10/82)	309.66	313.62	313.93	319.70 26/6	284.49 11/3
Topix(4/1/68)	1669.44	1690.50	1692.20	1722.13 26/6	1524.12 13/3
2nd Section(4/1/68)	2229.74	2249.99	2242.37	2251.49 2/7	1982.78 14/3
Malaysia					
KLSE Comp.(4/4/86)	1129.37	1133.18	1137.92	1189.54 30/4	983.18 2/1
Mexico					
IPC(Nov 1978)	(u)	3105.92	3174.88	3352.88 22/5	2786.36 8/3
Netherland					
CBS TtlRtnGen(End 83)	637.2	642.9	647.4	652.80 12/6	538.50 2/1
CBS All Shr(End 83)	377.9	381.4	384.0	387.10 13/6	328.70 2/1
New Zealand					
Cap. 40(1/7/86)	2097.52	2120.41	2120.17	2203.06 4/1	2025.14 7/6
Norway					
Oslo SE(Ind)(2/1/83)	1421.51	1436.57	1443.07	1466.71 12/6	1259.68 30/1
Philippines					
Manila Comp(2/1/85)	3320.16	3374.40	(c)	3374.40 5/7	2578.97 2/1
Portugal					
BVL 30(4/1/93)	1947.45	1965.83	1966.29	1969.29 3/7	1602.81 2/1
Singapore					
SES All-S'pore(2/4/75)	564.84	565.69	568.07	616.37 5/2	533.89 2/1
South Africa					
JSE Gold(28/9/78)	1853.9♥	1816.2	1802.8	2839.40 29/5	1349.40 2/1
JSE Ind.(28/9/78)	8132.4♥	8197.9	8197.1	8738.39 25/1	7723.28 20/5
South Korea					
KoreaCompEx**(4/1/80)	848.00	845.12	841.51	986.84 7/5	817.43 29/6
Spain					
Madrid SE(30/12/85)	369.07	368.94	373.01	375.25 1/7	323.75 11/1
Sweden					
AffarsvardsGen(1/2/37)	1964.4	1965.3	1986.0	2019.80 6/6	1708.60 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1778.85	1779.86	1793.69	1793.69 4/7	1518.19 17/1
SBC General(1/4/87)	1263.9	1265.30	1276.80	1276.89 4/7	1114.47 26/1
Taiwan					
Weighted Pr.**(30/6/66)	6327.46	6441.02	6428.40	6880.41 29/6	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	1241.27	1257.90	1283.47	1415.04 6/2	1223.46 24/6
Turkey					
Istanbul Comp.(Jan 1986)	73531.3	72536.1	72417.8	73631.30 8/7	38779.30 2/1
WORLD					
MS Capital Intl(1/1/70)	764.6*	769.6	780.1	783.20 1/7	725.98 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1686.42	1700.35	1709.78	1709.78 4/7	1594.46 11/1
Euro Top-100(26/6/90)	1431.91	1437.57	1449.26	1458.28 26/4	1333.01 11/1
HSBC JC Orgs(31/12/88)	(c)	381.62	381.87	383.18 16/4	344.19 2/1
ING Barings Emrg(7/1/92)	(u)	165.83	165.91	166.91 4/7	147.36 2/1

** Sat Jul 6: Taiwan Weighted Price 6380.75; Korea Comp Ex 846.81. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ◆ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Jul 8 - 2581.51 -7.26

US INDICES

Dow Jones	Jul 5	Jul 3	Jul 2	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5588.14	5703.02	5729.98	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.53	101.96	101.80	106.08 (14/2)	101.08 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2139.81	2196.89	2202.03	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	12.32 (8/7/32)
Utilities	214.71	219.88	220.72	234.00 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5667.58 (5749.93) Low 5570.77 (5658.47) (Theoretical♠)
Day's high 5702.28 (5720.76) Low 5561.49 (5662.76) (Actual♠)

Standard and Poors	Jul 5	Jul 3	Jul 2	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	657.44	672.40	673.61	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	781.77	797.77	798.53	807.88 (5/6)	702.07 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	65.75	67.94	67.94	68.58 (5/3)	58.67 (10/1)	68.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	353.24	360.37	361.01	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	574.33	579.65	579.56	614.99 (22/5)	529.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1158.36	1181.60	1191.15	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

■ RATIOS

	Jul 6	Jun 28	Jun 21	Year ago
Dow Jones Ind. Div. Yield	2.22	2.19	2.17	2.37
	Jun 26	Jun 19	Jun 12	Year ago
S & P Ind. Div. yield	1.87	1.87	1.87	2.14
S & P Ind. P/E ratio	22.29	22.22	19.65	18.60

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ford Motor	3,309,100	31¼	-⅛
Hewlett Pckd	2,736,500	92¼	-1⅜
Chrysler	2,622,600	57⅝	-2¼
Gen Motors	2,003,300	50¼	-2
PepsiCo	1,931,500	34⅛	-⅜
Coca Cola	1,804,600	47⅝	-1⅛
Motorola	1,678,700	65⅝	+⅛
IBM	1,667,400	97⅞	-⅝
Merck	1,646,600	64¼	-1¼
Telef Mex	1,559,700	33⅝	-1

■ TRADING ACTIVITY

● Volume (million)	Jul 5	Jul 3	Jul 2
New York SE	181.413	334.566	389.997
Amex	10.425	17.524	20.216
NASDAQ	222.132	510.720	538.167
NYSE			
Issues Traded	2,938	3,158	3,180
Rises	295	1,084	1,213
Falls	2,089	1,212	1,116
Unchanged	554	860	851
New Highs	20	83	92
New Lows	48	38	28

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
Jul	2088.0	2082.0	-16.0	2092.0	2067.5	16,072	34,302
Aug	2092.5	2088.5	-16.0	2092.5	2090.0	60	2,514
■ DAX							
Sep	2570.0	2573.0	-14.0	2575.0	2560.5	14,612	-
Dec	2580.0	2582.5	-14.5	2594.0	2585.0	72	-
■ OMX							
Jul	1525.00	1525.00	-	1530.50	1512.00	2,710	15,132
Aug	1533.00	1527.00	-23.00	1533.00	1527.00	30	1,170
■ SOFFEX							
Jul	3709.0	3743.0	+9.0	3744.0	3697.0	7,341	31,663
Aug	3719.0	3747.4	-1.6	3747.4	3711.0	76	157
■ S&P 500							
Sep	660.50	661.20	+0.10	661.20	657.40	48,235	171,684
Dec	667.00	667.40	+0.10	667.40	666.00	202	7,309
■ Nikkei 225							
Sep	22070.0	21900.0	-440.0	22090.0	21840.0	23,490	225,462
Dec	22090.0	21900.0	-450.0	22090.0	21900.0	4	4,139

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Monday, July 8, 1996

	Stocks Traded	Closing Prices	Change on day
Kobe Steel	5.4m	302	
Ishihara Sangyo	5.0m	443	-11
Sumitomo Mtl Ind	3.8m	320	-9
Mitsubishi Heavy	3.5m	945	-10
Toshiba Corp	3.1m	760	-5
Nippon Stl Corp	3.0m	362	-4
Hitachi	3.0m	1030	-20
Keisei Ele Ry	2.7m	1190	-30
Mitsubishi Chem	2.6m	517	-8
Nippon Hsg Loan	2.5m	1	

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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NEW YORK STOCK EXCHANGE PRICES

4 pm close July 8

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
23¾	19	AAR	0.48	2.4	19	265	20	19¾	19⅞	-⅛
48⅛	38⅞	AMP	1.00	2.5	19	6720	40	39½	39⅞	+¼
87½	66	AMR			20	7033	85⅝	82¼	82¼	-3¼
50½	37⅝	ASA	1.80	4.4	26	500	40¾	40⅛	40⅝	-¼
44¾	38⅛	AbbtL	0.96	2.3	19	6363	42⅞	42	42⅛	-⅝
17¼	13	Abitibi Pr	0.40	3.0	8	1873	13½	d13	13¼	-⅛
39¼	27	ABM Ind	0.70	1.8	20	95	u39¾	39½	39⅝	
18⅝	13⅞	Acptncein			48	135	u18⅝	18⅛	18⅜	+¼
60⅞	37¾	ACE Ltd	0.56	1.3	10	926	46½	44½	44½	-2⅜
9⅞	9⅛	ACM Gvt In x	0.80	8.2	8	148	9¾	9⅝	9¾	-⅛
7⅞	6⅝	ACM GvOpp x	0.57	8.4		261	6¾	d6⅝	6¾	
7¼	6	ACM Gvt Sp x	0.66	10.4		351	6⅜	6⅛	6⅜	
8⅛	8¼	ACM Gvt Se x	0.90	10.7		398	8½	8⅜	8⅜	
9½	8⅜	ACM Man x	0.90	10.6		164	8½	d8⅜	8½	
30¾	16½	AcmeClr	0.52	1.7	7	6	30	29⅞	29⅞	
13⅞	6⅛	Acme Elect			43	81	8	7¾	7¾	-⅛
33¾	27¾	Acordia	0.80	2.4	20	10	33⅛	33	33⅛	-⅛
21⅞	12	Acuson			63	913	14¾	13⅝	14	-¾
19½	18⅜	Adams Expr	1.66	8.7	0	173	19¼	19⅛	19⅛	
21¼	12⅞	AdvMic			5	5020	13¾	13⅛	13¼	-⅜
11⅛	8½	Advest Grp	0.16	1.5	7	84	10⅝	10⅜	10⅜	-⅛
36⅛	9⅛	Advo Inc	0.10	1.0	56	421	10¼	10	10⅛	
50⅜	41⅛	Aegon	1.19	2.5	14	43	47	46¾	47	-⅛
6¾	3½	Aerfin			3	187	6	5⅞	5⅞	+⅛
78¾	66⅜	Aetna L	2.76	4.1	17	8523	70	67⅜	67⅝	-2¼
33	28¾	Aflac	0.40	1.3	12	909	30⅛	29⅝	29¾	-⅜
30⅞	17⅛	AGL Res	1.08	5.7	16	249	18¾	18¼	18⅝	+⅛
28	21¼	Ahmnsn	0.88	3.4	7	1794	26¼	25¾	25⅞	-¼
60⅞	50⅜	AirPrC x	1.10	2.0	14	1768	57	55¾	55¾	-1⅜
28⅜	23½	Airbrne Frt	0.30	1.1	24	371	26¾	25⅛	26⅜	-⅛
22½	15½	Airgas Inc			33	910	20¼	19⅞	20⅛	+½
18⅞	15	Airlease	1.80	11.2	10	53	16⅜	16	16	-½

Continued on next page

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4 pm close July 8

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
20⅛	13⅛	SciAtl	0.06	0.4	38	1268	14⅞	14¼	14⅞	-⅛
21	17	Scotsman x	0.10	0.5	12	709	20	19¾	19⅞	-¼
47½	38⅛	Scripps	0.52	1.2	26	499	45¾	44¾	45	-⅜
18⅛	14⅞	[illegible]	0.02	0.1		143	14⅝	d14⅜	14½	
12⅞	11	[illegible]	0.16	1.3		287	12⅝	12½	12½	-⅛
20½	18	[illegible]	0.70	3.7	2	7	18¾	18¾	18¾	
16	15	[illegible]	1.46	9.4		3	15⅝	15½	15½	
67¾	42¼	S'gate			16	13237	44½	43¼	43¼	-¾
38¾	31¾	Seagrm	0.60	1.8	22	6254	33¼	32⅞	33	+⅛
26	17⅛	Seagull En			17	1752	25½	24½	25½	+1⅛
38⅛	26	Sealed Air			24	847	34⅜	33⅛	33⅛	-1¼
53⅞	38¼	SearsR	0.92	2.0	13	8055	47¼	45⅞	46	-1
22⅜	19¼	SecCapSBI	1.24	5.8	21	108	21⅝	21¼	21¼	-¼
13	11⅞	[illegible]	0.84	6.7		76	12¾	12½	12½	-¼
23¾	13⅝	[illegible]	0.22	1.4	13	2205	16	15⅝	15⅞	+⅛
44⅜	29½	SequaA	0.60	1.4	116	17	44⅛	44	44⅛	-¼
50	39	SequaB	0.50	1.0	130	3	49¾	48¾	48¾	
60¼	36⅞	ServCp	0.48	0.8	29	971	57⅜	56⅞	57⅛	-⅛
23½	19½	[illegible]	0.68	3.0	15	1019	23¼	22¾	22¾	
6¼	4½	[illegible]			10	1061	5¼	5¼	5¼	
48¼	28½	SGSThm			7	875	38	35½	35⅝	-⅜
15⅛	10⅝	Shaw Ind	0.30	2.3	40	754	13⅜	13	13⅛	+⅛

[illegible]

- V -

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- W -

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AMEX PRICES

4 pm close July 8

[illegible]

NASDAQ NATIONAL MARKET

4 pm close July 8

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AMERICA

US stocks hold steady at midsession

Wall Street

The US stock market surprised many on Wall Street by holding steady in the wake of Friday's sharp sell-off that sent the Dow Jones Industrial Average down by nearly 115 points during the half-day session, *writes Lisa Bransten in New York.*

At 1 pm the Dow was up 4.06 at 5,592.20, while the Standard & Poor's 500 lost 0.28 at 657.16 and the American Stock Exchange composite shed 2.33 to 572.00. Volume on the New York Stock Exchange came to 197m shares.

Shares tumbled along with bonds on Friday after surprisingly strong data on June employment and wage levels sparked fears that the Federal Reserve might raise interest rates aggressively in the near term. Many analysts believed that the decline would continue yesterday because many investors were out of their offices on Friday because of the Independence Day holiday.

Mr Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette, attributed yesterday's stability in the equity market to the steady bond market, where the benchmark 30-year Treasury edged higher in early afternoon trading.

"If the bond market doesn't haemorrhage, the stock market won't," he said. "Anything that threatens a new high in [long term interest] rates and I think the stock market is going to suffer some."

Technology shares were stronger. The Nasdaq composite, which is weighted toward that sector, put on 2.63 at 1,160.94 and the Pacific Stock Exchange technology index firmed 0.4 per cent.

IBM was among the strongest performers of the 30 companies in the Dow with a gain of $1¼ at $99⅞. Motorola jumped $2½ to $58⅝ as investors hoped that the computer chip and cellular telephone company would report strong earnings later this week.

Meanwhile, Tandy, the consumer electronics retailer, slid $3⅞ or 9 per cent to $41⅝ after warning that second-quarter earnings would be below those from the comparable period last year.

Honeywell dipped $⅞ to $51⅝ on news that an appeal court had upheld a jury finding that the company had infringed on a patent held by Litton Industries. Their latter slipped $⅝ to $42⅝ on the news.

Canada

Toronto was weak in midsession trade after the inflation worries that shook Canadian and US markets on Friday. The TSE 300 composite index was 14.29 down by noon at 5,048.40 in volume of 31.7m shares.

Golds rose on stronger bullion prices in early trade, but weakened as prices slipped.

The Calgary-based Petromet Resources was actively traded, picking up 4 cents to C$2.55.

Banking stocks continued their slide from Friday. Bank of Montreal receded 20 cents to C$33.35.

Gold stocks were mixed. Arequipa Resources recovered, rising 85 cents to C$19.15, after falling on Friday on disappointing drilling results from its Pierina property in Peru. *Placer Dome slipped 45 cents to C$34 in heavy trading.*

Mexico down 1.5%

There were variations in the performances of the region's equity markets, with MEXICO CITY off 1.5 per cent by midday. The IPC index was down 45.56 at 3,060.36 as fears returned of a possible rise in domestic interest rates during the course of the week.

Televisa, the media group, was one of the heaviest casualties, losing 4 per cent after breaking through a technical support level on Friday. The fall was attributed mainly to interest rate worries.

SAO PAULO was moving in a different direction as the Bovespa index picked up 586.57 to 63,451 by early afternoon. *On Friday the market had* dropped 2.3 per cent.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	-0.31	-6.16	+2.47	+11.75	+4.47	+4.65
Belgium	+1.33	+0.63	+19.12	+7.88	+0.80	+0.98
Denmark	+0.75	+2.79	+19.33	+11.93	+5.21	+5.39
Finland	+0.99	-0.64	-13.50	+10.79	+2.94	+3.12
France	-0.86	-0.06	+12.44	+15.07	+8.79	+8.97
Germany	+0.30	+1.33	+19.57	+12.29	+5.01	+5.19
Ireland	-1.22	-1.23	+22.04	+11.31	+10.60	+10.79
Italy	+0.65	+0.21	+3.89	+8.07	+11.72	+11.91
Netherlands	-0.41	-0.44	+28.99	+15.75	+8.07	+8.25
Norway	+1.53	+0.53	+14.47	+13.15	+9.52	+9.71
Spain	-1.67	+1.14	+28.88	+15.30	+8.74	+8.93
Sweden	-1.21	-2.12	+16.94	+13.26	+12.30	+12.50
Switzerland	+0.11	+4.86	+30.97	+12.63	+2.53	+2.71
UK	+0.91	+0.82	+10.50	+2.09	+2.09	+2.26
EUROPE	+0.19	+0.87	+15.96	+8.98	+5.06	+5.26
Australia	-0.82	-0.16	+9.22	-0.64	+5.52	+5.70
Hong Kong	+0.69	-0.40	+18.30	+12.24	+11.91	+12.11
Japan	-1.25	+1.78	+38.44	+6.17	-1.41	-1.23
Malaysia	+0.11	+0.66	+6.00	+13.45	+15.46	+15.65
New Zealand	+1.72	+4.64	-1.48	-2.38	+2.27	+2.45
Singapore	-1.07	-2.04	+6.12	+1.09	+0.95	+1.13
Canada	+0.41	-1.36	+10.94	+8.17	+7.61	+7.79
USA	-1.92	-2.49	+19.71	+6.47	+6.29	+6.47
Mexico	-2.80	-4.18	+34.96	+13.86	+14.78	+14.98
South Africa	+0.39	+0.22	+27.02	+12.16	-5.88	-5.72
WORLD INDEX	-1.03	-0.44	+22.68	+7.28	+4.28	+4.45

† Based on July 5 1996.

EUROPE

Hesitant bourses make up some of lost ground

The Continent spent an uncomfortable morning waiting for the opening of Wall Street, before recovering some lost ground later in the day as the US stock market remained steady.

PARIS was weak in the morning as worries persisted about another decline in the US, but during the afternoon there was a *different story* which was sufficient to lift the CAC-40. The index, after a session low of 2,065.04, ended at 2,079.06, down 19.73 on the day. Turnover was FFr4.2bn.

Docks de France remained in the news, although turnover was on the low side, as rumours developed that Tesco, of the UK, might be about to mount a bid. The French group finished FFr14 up at FFr1,222. Last week Auchan, a private company, launched a hostile bid valued at FFr1,250 a share.

Financials were mixed, with BNP losing FFr3.30 to FFr176.60, Bancaire off FFr9 to FF566, Paribas down FFr3.50 to FFr295.40, SocGen off FFr14 to FFr537 and Suez FFr3.90 weaker at FFr162.

However, Credit Local went against the trend with a rise of FFr3.50 to FFr123.30 after a broker's positive recommendation of the group.

Both Bouygues and Générale des Eaux slipped after France Telecom announced that it was cutting prices by nearly 13 per cent. Bouygues, which owns Bouygues Telecom, lost FFr5 to FFr564, and Générale des Eaux FFr5 to FFr546.

FRANKFURT took its lead from the US in fairly muted trading conditions. The Dax index dipped 32.45 to 2,551.04, but after Wall Street's opening the Ibis moved to 2,561.51. Turnover was DM6bn.

Investors were also slightly wary ahead of today's German June unemployment data, while prospects for a cut in domestic interest rates by the Bundesbank on Thursday were dashed after the president of the bank said there were no economic grounds for a move.

Mannesmann gained DM6.20 to DM529, then to DM530 in the Ibis, following a buy recommendation from Deutsche Morgan Grenfell, which lifted its rating from neutral to overweight. The broker forecast that the machinery manufacturer would see earnings per share of DM36.20 in 1998, as against DM22.50 in 1996 and DM27.60 in 1997.

Thyssen rose DM3.50 to DM269 as speculation continued that it would succeed in buying a stake in the German railway's telecoms subsidiary.

FT-SE Actuaries Share Indices								
Jul 8	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1687.85	1686.64	1687.35	1687.36	1686.17	1683.73	1686.17	1686.42
FT-SE Eurotrack 200	1725.41	1726.03	1727.85	1728.01	1728.24	1724.07	1727.36	1728.13
	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1			
FT-SE Eurotrack 100	1700.35	1709.78	1703.23	1706.94	1701.31			
FT-SE Eurotrack 200	1724.01	1743.59	1736.19	1738.66	1731.91			

Base value 1000 (26/10/90) Highs/day: 100 - 1688.41; 200 - 1728.51 Low/day: 100 - 1683.06 200 - 1723.61 † Partial.

AMSTERDAM was stable in subdued trading conditions. The AEX index finished down 4.48 at 554.45.

There was interest in the publishing sector, with Wolters Kluwer gaining Fl 1.80 to Fl 192.80 as Elsevier eased 10 cents to Fl 26.

But it was the financial sector that bore the brunt of the falls, ING down Fl 1.10 at Fl 40.10, ABN Amro off Fl 1.90 at Fl 89.40, Aegon Fl 1.10 lower at Fl 80.10 and FortisAmev Fl 1 easier at Fl 48.30.

Among the internationals, Royal Dutch lost Fl 2.50 at Fl 261 and Unilever fell Fl 1.60 to Fl 244.40.

Hoogovens, the steel and aluminium company, advanced 20 cents to Fl 61 in spite of a broker's downgrade last week.

MILAN trimmed early losses, taking its lead from Wall Street and with little in the way of domestic news to drive the prices. The Comit index fell 6.15 to 654.26, while the real-time Mibtel index was 65 weaker at 10,449, after a day's low of 10,400. Turnover was estimated at a thin L400bn.

IMI fell L295 to L12,060 after the treasury said it had concluded the sale of the last tranche of the investment bank at L12,040 a share.

Among the day's gainers, ENI rose L23 to L7,523 and Olivetti jumped L19.5 to L8,625.

The telecommunications sector was weak, with Telecom Italia down L75 to L3,227 and Tim L72 lower at L3,506.

ZURICH shrugged off early losses towards the end of the session, with index-related transactions playing a prominent role in the day's trade. The SMI index picked up from a low of 3,686.5 to end 1.6 up on the day at 3,732.8.

UBS bearers put on SFr11 at SFr1,252, supported by a warrant expiring in mid-July at a strike price of SFr1,250.

Nestlé rose SFr13 to SFr1,472, still driven by last week's rumours of a restructuring.

COPENHAGEN saw pressure on Tele Danmark, which plunged 4 per cent after announcing that a steep rise in marketing costs would dent its first-half 1996 result by DKr500m, while price reductions on mobile and international calls would cost DKr100m. The shares subsequently rallied to finish DKr9 down on the day at DKr286 and the KFX top-20 index closed 0.38 off at 116.82.

OSLO was dragged lower by a fall in Norsk Hydro, after a Salomon Brothers study forecast that a sharp rise in petroleum income was expected to be offset by a downturn in revenues in the chemicals sector, leaving the 1996 results little changed on 1995.

Hydro, with a weighting of around 20 per cent in the Total index, declined NKr5.50 to NKr310.50, as the Total index slid 7.50 to close at 837.09.

STOCKHOLM was shored up by a strong performance in Astra as the drugs group recovered from the negative trend of previous sessions.

Astra rebounded SKr5 to SKr279 as the Affärsvärlden general index eased 0.9 to 1,964.4.

ISTANBUL touched an all-time peak as the Islamist-led government won a confidence vote in parliament. The composite index rose 995.16 to 73,531.30, but off a session high of 74,730. Turnover eased to TL9,150bn from Friday's TL9,930bn. The market gained 3 per cent last week as optimism built that the government would win the vote.

WARSAW could not hold on to Friday's 27-month high as profits were taken. The Wig index slipped 1.9 per cent to 14,003.9 as turnover fell by 28.6 per cent to 122.7m zlotys. Losers led gainers by 61 to six, with eight stocks unchanged.

Universal rose 3.8 per cent after surging 20.1 per cent last week on news of a 6.3m zlotys tax refund.

VIENNA was another market which fell steadily. The ATX index managed to make a modest recovery from a morning low before closing 8.90 down at 1,076.72.

Radex Heraklith led the losers, dropping 2.4 per cent to Sch333, while VA Tech was the main gainer, advancing 0.45 per cent to Sch1,345.

Written and edited by Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei dips below 22,000 as Hong Kong drops 2.6%

Tokyo

The rise in the dollar against the yen led to fears of import inflation and a shift in monetary policy by the Bank of Japan. The Nikkei average closed below the 22,000 level for the first time since June 11, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index lost 307.48, or 1.4 per cent, at 21,924.94 after moving between 21,801.75 and 22,148.11. Concern over interest rates triggered heavy selling on the futures market, which in turn led to arbitrage unwinding; Friday's fall on Wall Street also unnerved investors, making many refrain from trading.

Volume was 286m shares, against 282m, falling below 300m for the third consecutive trading day.

The Topix index of all first *section stocks fell 21.06, or 1.3* per cent, to 1,669.44. The Nikkei 300 lost 3.96 to 309.66. Declines led advances by 973 to 114, with 122 issues unchanged.

In London the ISE/Nikkei 50 index gained 1.29 at 1,488.23.

The dollar rose above the Y111 level for the first time since January 1994, raising concerns of import inflation. The yen's previous strength had boosted the amount of imports into Japan, and some investors were worried about the negative impact on domestic prices.

Interest rate fears and arbitrage linked selling hit banks. Industrial Bank of Japan lost Y20 to Y2,610, Bank of Tokyo-Mitsubishi declined Y40 to Y2,430 and Dai-Ichi Kangyo Bank fell Y20 to Y1,960.

Daiwa Securities, which had lost ground last week on reports of irregular trades, fell further, declining Y30 to Y1,350.

The weak yen failed to help exporters: technology issues fell, with Hitachi off Y20 to *Y1,030 and Toshiba retreating* Y5 to Y760. Sony declined Y60 to Y7,120 in spite of early buying by foreign investors.

In Osaka, the OSE average receded 304.63 to 23,167.74 in volume of 15.8m shares.

Roundup

Regional markets took their cue from the sharp declines in US stocks and bonds on Friday after a stronger than expected employment report which rekindled worries that the Fed*eral Reserve would raise inter*est rates soon.

HONG KONG posted its biggest single-day loss in nearly four months as renewed fears of rising interest rates drove investors out of the market. The Hang Seng index finished 287.08, or 2.6 per cent, down at 10,890.05, but up from a day's low of 10,844.91. Turnover surged to HK$6.3bn.

Few sectors were spared as investors liquidated even so-called defensive stocks, such as utilities. China Light receded 60 cents to HK$34 and Hong Kong Telecom shed 40 cents to HK$13.40.

BANGKOK saw its heaviest single-day loss in four weeks. The SET index weakened 16.72 to 1,241.27 in turnover of Bt3.81bn.

Most of the major stocks in the leading five sectors ended down, with the biggest loss occurring in the communications sector. Shinawatra Computer and Communications dropped Bt22 to Bt500 and Advanced Info Service, an *operator of a mobile telephone* service, fell Bt16 to Bt382 in volume of 188,800 shares.

KUALA LUMPUR steadied, after an early stumble, on renewed buying of small-capitalisation issues, and the composite index ended 3.81 softer at 1,129.37 after a low of 1,114.35. SEOUL saw profit-taking which erased early gains, and the composite stock index finished 2.40 weaker at 847.99.

SINGAPORE featured further selling in Singapore Telecom, down 14 cents to S$3.50, compared with its all-time high of S$4.10 set on June 3.

The Straits Times Industrial index lost 37.65 at *2,221.31* as a broad sell-off in the electronics sector sent Goldtron down 3 cents to S$1.00.

BOMBAY moved ahead in *extended trading hours after a* power failure disrupted operations. The BSE-30 index picked up 23.71 to 3,730.72 as activity remained focused on a few pivotal shares, supported by news that the government was to reduce a planned rise in diesel fuel tax.

WELLINGTON declined in thin turnover and the NZSE-40 capital index closed off *22.89,* or 1.1 per cent, at 2,097.52. Turnover came to NZ$27m. Telecom was one of the major casualties, off 11 cents to NZ$6.15.

Forestry stocks were also weak, with Carter Holt Harvey down 4 cents at *NZ$3.39* and Fletcher Challenge Paper dropping 9 cents to NZ$2.79. SYDNEY saw the All Ordinaries index fall 39.6 to 2,191.2.

JAKARTA remained volatile, although trading conditions were thin, as uncertainties surrounding President Suharto's health kept many investors sidelined. The JSX index eased 1.21 to 573.83.

Some dealers commented that equities managed to hold steady in spite of falling heavily late last week. Others mentioned *that* concerns over Mr Suharto's health had eased at the weekend.

Bimantara, which is controlled by Mr Suharto's second son, Bambang Trihatmojo, rebounded Rp75 to Rp2,625.

Inter Delta, an electronics *stock, rose 24 per cent, or* Rp425, to Rp2,225 on rumours that the company was a takeover target.

TAIPEI encountered profit-taking in the electronics sector. The weighted index lost 53.29 at 6,327.46. Turnover was a modest T$32.52bn.

Electronics shares dropped 2.3 per cent, with Taiwan Semiconductor Manufacturing off 4.5 per cent, or T$2.50, to T$53.

MANILA retreated from the record high seen on Friday and the composite index fell 54.24, *or 1.6 per cent, to 3,320.15.*

S African gold shares rally

Johannesburg's industrial stocks closed off the day's *worst levels but still* weak after taking their lead from Friday's drop on Wall Street.

Gold issues finished strongly as players took cover on the better bullion price and expectations of good gold mining quarterly results, due to be released from Thursday.

The overall index shed 31.8 to 6,873.3, industrials fell 55.5 to 8,132.4 and the gold shares *index improved 38.3 to 1,853.9.*

Loraine jumped R2.50, or 14.3 per cent, to R20.0, Vaal Reefs advanced R12.50 to R380 and Dries put on R1.25 at R61.50, but Anglos retreated R2.50 to R268.

SA Breweries declined R1.25 to R125.75 and First National slipped 50 cents to end at R30.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

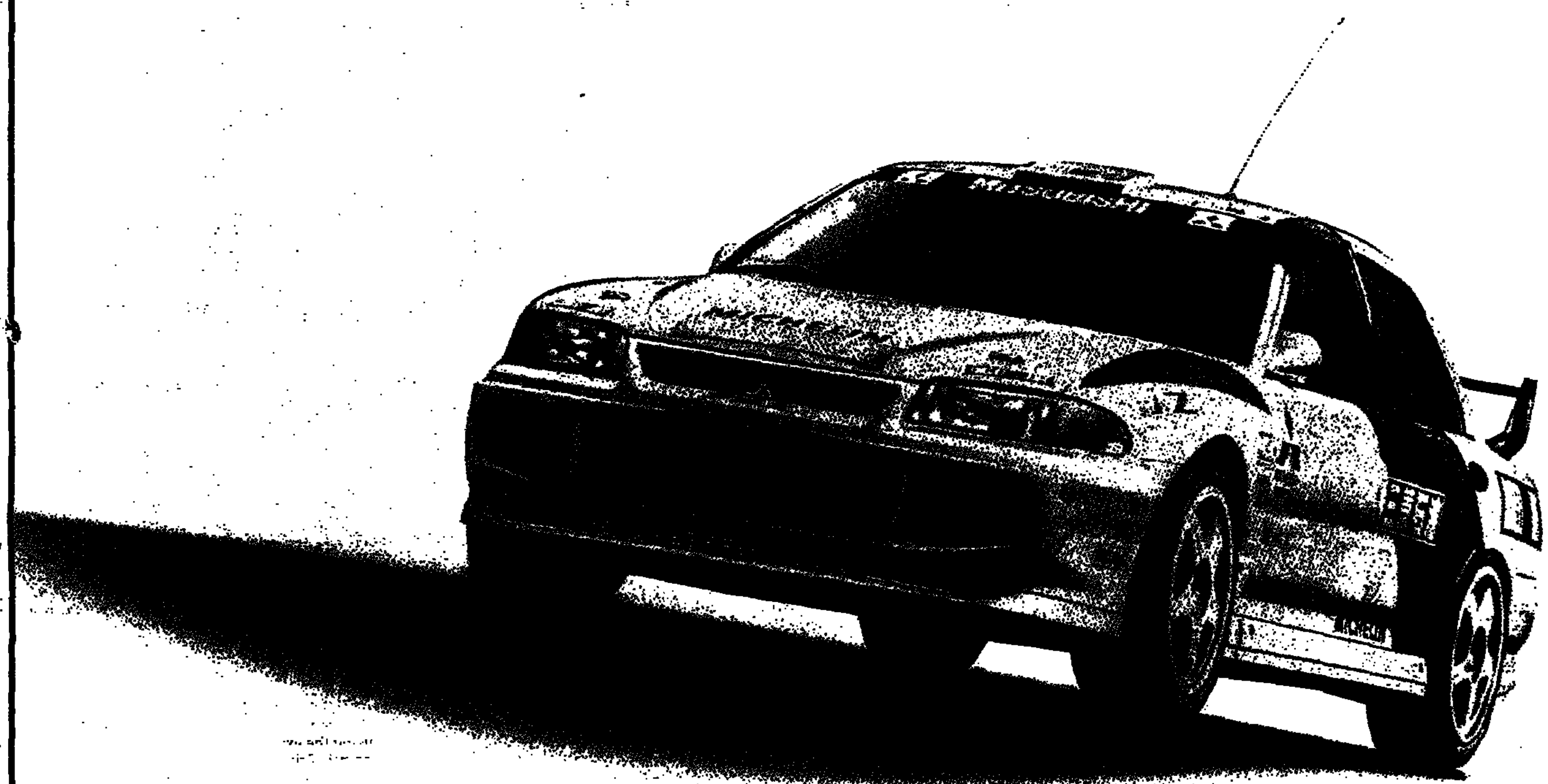
NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 5 1996								THURSDAY JULY 4 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (79)	200.86	1.0	191.48	140.78	159.56	168.82	0.1	4.36	198.61	188.91	138.71	157.47	168.58	212.18	164.99	164.99
Austria (24)	182.65	-0.2	174.12	128.02	145.10	145.04	0.1	1.94	183.07	173.95	127.72	145.00	144.94	198.98	168.11	197.04
Belgium (27)	211.18	-0.8	201.32	148.02	167.76	163.75	-0.6	4.07	212.92	202.31	148.55	168.64	164.65	215.81	186.06	196.05
Brazil (28)	183.83	-2.1	175.24	128.85	146.03	339.92	-2.1	1.92	187.75	178.40	130.99	148.71	347.25	187.75	123.97	134.75
Canada (120)	160.01	-1.2	152.54	112.15	127.11	158.57	-0.5	2.28	161.96	153.89	113.00	128.28	159.44	165.12	134.14	144.05
Denmark (30)	304.33	-1.5	290.12	213.31	241.76	243.62	-1.2	1.88	309.01	293.62	215.60	244.75	246.68	309.01	276.89	277.86
Finland (23)	192.91	-1.0	183.90	135.21	153.24	188.88	-0.7	2.65	194.83	185.13	135.93	154.32	190.28	276.11	171.73	244.06
France (96)	195.51	-1.3	186.38	137.03	155.31	158.37	-1.1	3.04	198.11	188.24	138.22	156.91	160.06	198.39	167.70	185.58
Germany (59)	172.19	-0.1	164.15	120.69	136.78	136.78	0.2	1.82	172.43	163.84	120.30	136.57	135.57	174.38	155.66	158.05
Hong Kong (58)	434.64	-0.1	414.34	304.65	345.27	431.96	-0.1	3.30	435.26	413.57	303.67	344.74	432.56	451.19	348.81	367.49
Indonesia (27)	203.61	-3.1	194.10	142.71	161.74	292.41	-3.1	1.56	210.08	199.61	146.57	166.39	301.89	-	-	-
Ireland (16)	283.09	0.1	269.87	198.42	224.88	250.02	0.4	3.43	282.92	268.83	197.39	224.09	249.12	290.82	235.86	238.15
Italy (59)	82.48	-0.3	78.63	57.81	65.52	94.38	-0.1	2.33	82.74	78.61	57.72	65.53	94.48	84.53	67.22	75.05
Japan (481)	153.02	-0.6	145.87	107.25	121.55	107.25	-0.1	0.71	153.87	146.21	107.36	121.87	107.36	164.66	137.75	144.23
Malaysia (107)	561.07	0.1	534.87	393.26	445.70	538.21	0.1	1.67	560.66	532.73	391.17	444.07	537.82	585.09	425.77	539.89
Mexico (18)	1190.90	-2.3	1135.29	834.72	946.04	9994.81	-2.0	1.34	1218.98	1158.25	850.47	965.49	10141.02	1325.65	781.99	1073.63
Netherland (19)	295.22	-1.1	281.44	206.93	234.52	230.96	-0.8	3.12	298.45	283.58	208.23	236.39	232.81	298.69	245.79	253.24
New Zealand (15)	81.61	0.1	77.80	57.21	64.83	63.15	0.1	4.30	81.54	77.47	56.89	64.58	63.11	85.49	75.94	81.04
Norway (35)	253.74	-0.8	241.88	177.85	201.56	224.43	-0.5	2.02	255.65	242.92	178.37	202.49	225.45	256.94	222.24	234.47
Philippines (22)	219.41	0.1	209.16	153.79	174.30	286.32	0.0	0.53	219.23	208.31	152.95	173.64	286.35	-	-	-
Singapore (44)	411.81	-0.2	392.58	288.65	327.14	268.34	0.0	1.42	412.48	391.93	287.78	326.70	268.30	465.21	355.81	392.82
South Africa (44)	363.30	-0.2	346.33	254.54	288.60	344.35	-0.2	2.10	363.97	345.84	253.94	288.28	345.10	437.76	341.16	341.16
Spain (37)	179.94	-1.5	171.53	126.12	142.94	175.06	-1.3	3.33	182.67	173.57	127.44	144.68	177.32	183.85	145.15	148.66
Sweden (48)	351.09	-1.4	334.69	246.09	278.90	346.61	-1.1	2.46	356.11	338.37	248.46	282.06	350.57	360.77	276.53	276.53
Switzerland (37)	242.38	-1.4	231.06	169.89	192.54	189.62	-0.9	1.56	245.85	233.61	171.53	194.73	191.28	252.34	191.24	203.39
Thailand (45)	172.32	-0.3	164.27	120.78	136.89	169.99	-0.3	1.94	172.92	164.31	120.65	136.98	170.47	193.95	146.74	177.42
United Kingdom (200)	235.76	-0.7	224.75	165.25	187.28	224.75	-0.4	4.16	237.48	225.65	165.69	188.10	225.65	237.48	216.52	218.38
USA (627)	267.50	-2.2	255.01	187.50	212.50	267.50	-2.2	2.21	273.52	259.89	190.83	216.64	273.52	276.47	223.46	223.46
Americas (793)	244.61	-2.1	233.19	171.45	194.32	205.88	-2.1	2.20	249.89	237.54	174.42	198.01	210.14	252.43	204.79	204.79
Europe (710)	211.44	-0.9	201.56	148.20	167.96	185.15	-0.6	3.06	213.30	202.67	148.82	168.94	186.18	213.30	189.33	191.64
Nordic (136)	302.49	-1.3	288.36	212.02	240.29	263.07	-1.0	2.34	306.47	291.21	213.82	242.74	265.69	308.61	261.13	266.88
Pacific Basin (879)	166.27	-0.4	158.51	116.54	132.08	118.33	-0.1	1.17	166.97	158.66	116.50	132.25	118.44	177.01	148.85	154.79
Euro-Pacific (1589)	184.99	-0.6	176.34	129.65	146.94	143.66	-0.3	2.07	186.16	176.89	129.88	147.45	144.11	190.57	168.51	170.05
North America (747)	260.92	-2.1	248.73	182.88	207.27	260.27	-2.1	2.21	266.66	253.37	186.04	211.20	265.90	268.52	218.54	218.54
Europe Ex. UK (510)	193.01	-0.9	183.99	135.28	153.32	161.00	-0.6	2.47	194.86	185.15	135.95	154.34	162.02	194.86	168.65	172.82
Pacific Ex. Japan (398)	288.63	0.1	275.15	202.30	229.28	249.08	-0.1	2.96	288.27	273.91	201.13	228.33	249.28	296.68	243.59	255.12
World Ex. US (1799)	186.31	-0.7	177.61	130.59	148.00	148.14	-0.3	2.07	187.57	178.22	130.86	148.56	148.65	191.55	167.36	170.94
World Ex. UK (2226)	208.90	-1.4	199.15	146.42	165.95	178.13	-1.2	1.93	211.82	201.27	147.79	167.77	180.30	213.05	183.88	189.96
World Ex. Japan (1945)	243.42	-1.5	232.05	170.62	193.37	230.63	-1.4	2.54	247.23	234.91	172.49	195.82	233.88	247.55	210.99	210.99
The World Index (2426)	211.29	-1.3	201.43	148.10	167.85	182.50	-1.1	2.13	214.12	203.45	149.39	169.59	184.59	214.95	186.87	186.87

 Latest prices were unavailable for this edition.

1996 WORLD RALLY CHAMPIONSHIP

FIA WORLD RALLY CHAMPIONSHIP

Winning's not our top priority...



... really. Winning is great, but it's not to be mistaken for the real objective of our '96 WRC efforts: the testing and development of new automotive systems and technologies in the harshest driving conditions on earth. And once we've got a winning technology, it's immediately adapted to our Mitsubishi production cars, making *you* the biggest winner of all.

Oh, and by the way, we did take the overall victory in Argentina.

MITSUBISHI MOTORS

CREATING TOGETHER

Subject to the official publication of the results by the FIA.

Disagreement remains over who is responsible if paperless settlement fails

Share system still not authorised

By John Gapper, Banking Editor

Final agreements to allow the Crest paperless share settlement system to start next week were still in negotiation yesterday following disagreements over who will bear liability if it fails to work.

CrestCo, the company that will run Crest, said that it was still signing agreements with the companies that will run its electronic network. It has yet to gain authorisation from the Securities and Investments Board, the main City of London regulator as a result.

Some of the 24 registrars that must electronically adjust ownership of company shares within two hours of a trade were pressing for these companies to bear the costs of fines if the network breaks down and stops them meeting contracts.

"We think it is unfair if we suffer a penalty for something that is not our fault," said Mr Tom Morrison, the chief registrar of the Royal Bank of Scotland. RBS is one of the largest registrars intending to take part in Crest.

The executive committee of SIB is expected to meet later in the week to authorise Crest to operate as an electronic share settlement system and an electronic clearing house. Crest is due to begin a phased start to operations next Monday.

CrestCo has already conceded the principle of placing a cap on fines that can be levied on registrars for failing to meet service standards. However, registrars have also pressed to escape fines for failures due to network failures.

Lloyds Bank, another large registrar, said it expected to sign a contract with Crest imminently. It said it thought the main areas of contention between it and the network providers – Swift and Syntegra – had now been resolved.

Crest is due to replace the Talisman share settlement system owned and operated by the London Stock Exchange. Crest is owned by about 60 large institutions, and has been developed under Bank of England, UK's central bank, management.

It would be awkward if Crest was unable to start as on time since it has a complex timetable to meet if it is to take over from Talisman entirely by next spring. However, it is widely expected to meet the deadline despite these issues.

SIB said that it was not unusual for a project of Crest's complexity to be authorised just before it was due to start operating.

Mr Morrison said that RBS was still waiting to hear if the network providers would bear the cost of fines on registrars when the network failed. The alternative was that CrestCo might not levy fines on registrars in such cases.

CrestCo said that it did not believe there were substantial issues still to resolve, and the disagreement had simply been part of normal business negotiations.

Patten promises European 'crusade'

By Lionel Barber in Brussels

Mr Chris Patten, governor of Hong Kong, yesterday declared he would return home and mount a personal crusade to put Britain back "at the heart of Europe" once he completes the handover of the colony to China in mid-1997.

Mr Patten, staking out a leading role in the governing Conservative party after the next UK general election, said he was ready "with all the passion I can muster" to "knock on doors" to promote the pro-European cause in Britain. "The party to which I belong, and of which I was once chairman, was associated with the historic, important and belated decision to join the European Community. I want to remain in a party dedicated to the successful membership of the European Union."

Mr Patten was speaking in Brussels on an official visit to press for visa-free access to the EU for Hong Kong residents, and to canvass political support during the transition to Chinese rule.

The governor made clear he thinks the anti-European drift inside the Tory party has gone too far. "I believe very strongly that Britain's role is to be at the heart of Europe. It is inconceivable to imagine circumstances in which Britain was not a member of a prosperous and decent European Union."

Without mentioning monetary union, Mr Patten signalled that eastern enlargement was a higher priority. "I cannot help but compare the speed and vigour which we opened our arms to Greece, Spain and Portugal after the end of the fascist governments with the more cautious pace with which we have proposed welcoming the Warsaw Pact."

If Mr John Major were to lose the next election, to be held by next May, Mr Patten's chances of succeeding him are rated as slim, partly because of possible difficulties finding a House of Commons seat.

English Channel ferry operators may link up

More co-operation could ease the pricing war

People travelling between Britain and mainland Europe this summer have an unrivalled choice of ferry sailings across the English Channel.

The number of ferry departures on the Dover-Calais route has increased sharply since the opening of the Channel tunnel linking Britain with mainland Europe, while ticket prices have been slashed.

But the frenzied activity on the quayside finds no echo in the boardrooms of the companies which own the ships.

P&O and Stena, the two main operators on the cross-Channel routes, are keen to limit competition. However, they are bound by undertakings given in 1982 that they would not merge their activities.

This enforced inactivity could change this week, if, as is widely expected, the government gives its approval for the lifting of these undertakings.

A stockbroking analyst said that with the tunnel claiming a market share of 40 per cent to 45 per cent, "there is no reason now for the government to continue its ban". However, he added that reaching an agreement between the companies "will be a cat and mouse game with neither side wanting to give away too much".

P&O has more ships in UK waters – 23 against Stena's 19 – but Gothenburg-based Stena has a wider range of routes in Scandinavia which provide a cushion against competitive pressures in the Channel.

P&O has a larger share of the Dover-Calais market – 30 per cent against Stena's 20 per cent – but this is a route where shipping operations make a loss and the only profits come from duty and value added tax-free sales.

"P&O needs the deal more," said one analyst. "Lord Sterling [the chairman] is under greater shareholder pressure to improve the company's performance."

Stena, too, has been feeling the heat generated by the Channel tunnel's opening. Last month it issued a profits warning, forecasting 1996 pre-tax profits even lower than the SKr201m ($30m) for last year, which in turn was less than half the 1994 figure.

Even if the UK competition authorities sanction discussions, they will not want to remove all restrictions on the ferry operators' freedom of action.

"A full-blown merger of their ferry operations is out of the question," said another analyst.

A limited pooling arrangement would allow the companies to agree a matched reduction in the number of daily sailings. But it would prevent the considerable savings which could be achieved by joint marketing and reducing the sizeable advertising budgets.

At Stena, UK staff emphasise the company's keenness on running "stand alone" ferry services, though Mr Bo Lerenius, the chief executive, says he is interested in a possible pooling arrangement – not just with P&O.

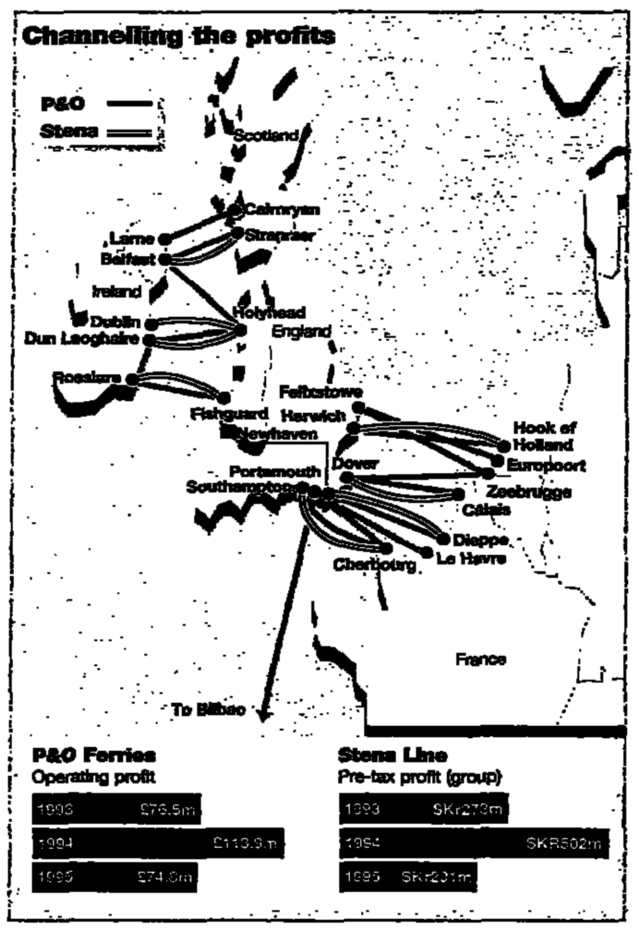
Last year saw the end of a long-running pooling agreement on the Dover-Calais run with SNAT, a subsidiary of SNCF, the French state-owned railway. A new agreement involving the ultimately state-owned SNAT, which now markets itself as SeaFrance, would complicate matters at this point.

However, while 1996 is expected to be the worst year for the cross-Channel ferry operators, profits could bounce back in a year or so when the tunnel is operating at full capacity.

"Giving the ferries carte blanche in their worst year could come back with a vengeance when they are doing well," said one analyst. "The answer may be to allow them to co-operate for a limited period."

With the cost of the cross-Channel battle mounting by the month, the protagonists will be grateful for any relief – though travellers could end up paying higher fares.

Charles Batchelor



Banks to pursue Iraq over £500m of defaulted loans

By Jimmy Burns in London

A group of banks, backed by the UK's Export Credits Guarantee Department, have notified the High Court in London that they intend to pursue claims for about £500m ($778m) in loans which Iraq has defaulted on.

Under the statute of limitations – a UK law covering the recovery of debt – the banks were facing the expiry of a six-year period in which they had to serve notice of their intention to take legal action to recover the loans. Transactions between Iraq and western banks were frozen under United Nations sanctions following President Saddam Hussein's 1990 Kuwait invasion.

Most of the loans, backed by the ECGD, fell due in 1992 and 1994, and include those funding defence-related exports.

The ECGD said: "We had to pre-empt any legal action by Iraq to declare the debt invalid after six years."

The banks include Midland, Morgan Grenfell, Barclays, National Westminster, Bank of Kuwait, Arab Banking Corporation, and Banque Paribas. Banks in the UK have approximately $1bn in Iraqi assets frozen by the Bank of England during the Gulf War.

Banks would need to take legal action to have the funds sequestrated and used to secure repayment. The UK government is unlikely to give the go-ahead for any move on the blocked Iraqi funds in the short term.

The Iraqi government departments named in the High Court writs issued by the banks include the Ministry of Industry and Military Manufacturing, and the Ministry of Water and Sewerage.

The move comes four months after the publication of the Scott arms-for-Iraq report which confirmed the extent to which UK's commercial links with Iraq , including military ties, were underpinned with trade credits approved through the ECGD.

UK NEWS DIGEST

BA pilots agree to negotiations

Talks aimed at averting next week's planned strike by British Airways pilots are due to start today with both sides expressing hopes of reaching agreement. The breakthrough followed an initiative yesterday by Mr Chris Darke, the general secretary of Balpa, the pilots trade union.

In a letter to Mr Robert Ayling, BA's chief executive, he called for a resumption of negotiations, saying it was in their mutual interest to try to find a solution to a dispute that could inflict serious financial damage on the company. BA's 3,500 flight crew staff are to take indefinite industrial action from July 16.

BA said last night that this was a positive development. "We have been trying to get the union to the negotiating table for some days," it said." "We will listen carefully to whatever Balpa has to say. We want to identify what the core of the problem is and see whether we can find reasonable ways of addressing it."
Robert Taylor, London

■ LONDON UNDERGROUND

Employers say strike crumbling

Nearly 40 per cent of London Underground services ran normally yesterday in the first sign that the drivers' strike may be crumbling, London Transport said. The Aslef train drivers' union executive will decide today whether to attend peace talks with the conciliation service Acas to try to resolve the dispute. The drivers' next one-day strike is due next Tuesday. Tomorrow the result of a strike ballot of Underground drivers belonging to the larger RMT transport union is due to be announced.
Robert Taylor. London

■ NORTHERN IRELAND

Parties threaten to quit talks

Unionist politicians last night threatened to withdraw from the all-party Northern Ireland peace talks because of the stand-off between fiercely Protestant Orange Order supporters and the Royal Ulster Constabulary in Portadown, Northern Ireland. As the province braced itself for further violence, Unionist sources said that Mr George Mitchell, the former US senator chairing the talks, would be told of the parties' intentions today.

It was understood that the Ulster Unionist party, Mr Ian Paisley's Democratic Unionist party and the United Kingdom Unionist party were intending to boycott the talks. For the second time in 24 hours, the police fired plastic bullets to disperse loyalist demonstrators at the tense stand-off at the Drumcree church outside Portadown. As evening approached on the second day of the clash, a crowd of some 400 Orangemen was bolstered by the arrival of loyalist supporters from outside the area.
John Murray Brown, Belfast

■ ECONOMICS

Manufacturing output stagnates

The enfeebled state of Britain's manufacturing sector was highlighted yesterday by official figures showing that factory production stagnated in May while industrial prices and raw material costs both fell last month. The figures – which came on the eve of the summer economic forecast by Mr Kenneth Clarke, the chancellor of the exchequer – underline the dichotomy in Britain's "two-speed" economy: growth in manufacturing has ground to a halt, while output in the service sector is still expanding strongly.

The figures make it more likely that Mr Clarke will try to squeeze in another cut in UK interest rates next month. But some officials at the Treasury and the Bank of England, the UK central bank, fear this would be ill-advised as they expect manufacturing to rebound strongly later this year.

The Office for National Statistics said that factory output was unchanged in May, but the statisticians revised up their original estimate of output in April by a fifth of a percentage point. The underlying trend in factory output has now been flat for six months.
Robert Chote and Gillian Tett, London

■ BROADCASTING

BBC to announce new team

The BBC is expected to announce this week the team in the BBC News Directorate, which will be responsible for making World Service programmes, in an attempt to head off criticism of its management restructuring. On Friday Mr Sam Younger, managing director of the World Service, announced to staff the three people who will be in charge of World Service commissioning. They are Mr Bob Jobbins, who will be in charge of news, Ms Penny Tuerk, non-news programming, and Mr Chris Gill, resources.

Restructuring of the BBC into functional units will deprive the World Service, the corporation's English language overseas service, of its programme-making capacity.

A World Service commissioning team will buy in programmes under contract from BBC News and from BBC Production, the new unit that will be responsible for making virtually all BBC programmes.
Raymond Snoddy, London

■ TECHNOLOGY

'Virtual' institute planned

Heriot-Watt University, in Edinburgh, Scotland, is to be the centre of a new National Microelectronics Institute funded by nine UK-based semiconductor manufacturers, it was announced yesterday. Heriot-Watt will provide the hub for a "virtual" institute, linking existing university and company facilities, which will focus initially on ensuring the availability of skilled technicians and engineers. The institute is supported by Motorola, NEC, National Semiconductor, Seagate, Siemens, Fujitsu, Newport Wafer Fab, Philips and GEC-Plessey.
David Wighton, London

Wickes affair highlights audit role

Home handyman chain's problems with contracts raise wider issues

The accounting scandal at Wickes, a UK home handyman chain, will have sent shivers through the British retail sector. Directors, shareholders, and auditors will be asking whether their companies have also enjoyed inflated profits as a result of an accounting scam.

Wickes' problems relate to contracts with suppliers. Various inducements are often offered by suppliers to retailers to help persuade them to take their goods and promote them vigorously in their stores. All are perfectly legal. These range from "golden hellos", which could cover marketing or secure a prominent shelf position to catch customers' attention, to "over-riders" which offer a retrospective rebate to the retailer once a certain volume of sales has been reached.

The problem is the timespan of the contract. If, for example, a rebate relates to sales over three years, the company's profits should benefit by a third of the total rebate during each of the three years. If it is a one-off contract, profits can be boosted by the total amount of the rebate in the next set of accounts.

What appears to have happened at Wickes is that auditors and senior management saw one set of contracts – which persuaded them that they could book the profit straightaway. But side letters existed between suppliers and some staff which told a different story – contracts were stretched over several years.

No individual gained directly from this practice but the result is that the company's profits were overstated. Estimates suggest operating profits could have been overstated by at least £20m to £25m ($31m to $39m) last year – against a reported operating profit of £36.7m.

The Wickes affair poses two questions. First, how common are supplier discounts and how are they normally treated in the accounts? Second, how common is it for the true nature of the contracts to be concealed from the auditors and the boards of companies?

There is no doubt that a wide range of such discounts is common in the UK retail sector. "Suppliers are having a pretty rough time with the major players. They are quite keen to keep themselves on the shelves with the secondary labels," says one accountant in the retail trade.

To get into stores, suppliers are prepared to surrender part of their profit margin. How it is later accounted for is not, in their view, their problem.

However, while there is a "grey area" in which discounts could be either spread, or taken straight to profit, most contracts will be clear enough to leave little room for argument. The classic accounting tenet of "prudence" requires that no revenue can be booked until its receipt is reasonably certain. Some companies would see that as meaning they had to have the cash.

Auditors do have some room for manoeuvre. There is a "spectrum of prudence" within which they can legitimately move. If a company is £2m short of meeting a key forecast – which economists in the City of London are keenly awaiting – there will be pressure to choose a method which delivers the right numbers. But massive distortions of profit are extremely unlikely as long as the details of the contracts are transparent.

More worrying is the possibility that collusion between suppliers and some staff is widespread in the sector. The anxiety of auditors is understandable as they have little defence against being misled by staff or third parties.

Jim Kelly

TECHNOLOGY

BEHIND THE NET

Surfing the index

A computer protocol developed by librarians could let users search databases, writes Richard Poynder

Order could soon be brought to the chaos of the Internet by an obscure computer protocol developed by librarians to share electronic library records. A product of organic growth, the Internet has no official central index. This, combined with the speed and manner in which new data are constantly being added, makes finding relevant information a Herculean task.

Called Z39.50, the protocol could have important implications for anyone who scours the Internet for information. At present, users normally have to search each database separately using different commands; but the protocol would allow unified searches across multiple library catalogues and commercial databases, as well as millions of Web pages.

Z39.50 is a "client/server applications protocol" that allows one computer system (the client) to search and retrieve information from another computer system (the server). It grew out of a 1980s project to develop a way of enabling electronic bibliographic records held at different library sites to be mutually accessible over networks. Members of the project included the Library of Congress and the US Research Libraries Group.

Effectively, Z39.50 is an Esperanto language that allows non-compatible databases to communicate. So long as both sides can "speak" Z39.50, the client can retrieve information from structured databases of different types in a consistent way. It allows simultaneous searches of multiple databases, too.

In recognition of its wider potential, Z39.50 has been adopted as a US national standard. It has also been extended to allow a wider range of data types to be recognised, including files containing multimedia components such as images and sound. Z39.50, its advocates argue, is an ideal tool to tame the Internet.

Previous attempts have focused on automated search engines. These roam the network, bringing back to a central server new or updated information that users can search by inputting words or phrases. This approach is adopted by Lycos, Info-Seek and Digital Equipment's AltaVista, the most ambitious such project so far, which claims to have indexed 15bn words from more than 30m Web pages.

Search engines are designed to index every word in every document, leading to a plethora of data and imprecision. "Overload and irrelevancy is inevitable where you have no bibliographic control," says Robin Murray, technical director at Fretwell-Downing, a Sheffield-based library automation company. "Consequently there is much discussion *now about introducing bibliographic tags* to Web pages." This is familiar territory for librarians weaned on classification codes such as the Dewey Decimal System, and Z39.50 was developed precisely to handle such bibliographic tags.

"If Z39.50 were implemented on search engines like AltaVista it would be possible to search on, say, author name or subject, rather than full-text searches within the body of a document," says Ray Denenberg, a senior network development officer at the Library of Congress.

There are obstacles. It would be necessary to get widespread agreement to adopt Z39.50 *as a network* standard. It would also require all Web pages to be indexed with bibliographic tags. "You could argue this is beginning to happen in an ad *hoc way," comments* Denenberg. "But if everybody ends up doing it their own way you will have chaos. There has to be a standard."

At a recent workshop meeting of W3C, the industry consortium dedicated to developing common standards for the evolution of the Web, a number of people expressed unhappiness with Z39.50.

"It was felt it was too large and complex for the Web. Part of the problem is that it is heavily focused towards traditional paper-type content," says Ben Horowitz, a product manager at Netscape, the leading supplier of browser software.

It was proposed, therefore, that advocates of Z39.50 should develop a simpler version of the protocol, which is already being dubbed "Z39.50 lite".

Whatever route the wider Internet community takes, libraries are increasingly using Z39.50 to share data over the Internet. The Irish Library Council's Iris service, for instance, enables users to search the catalogues of six libraries, including Trinity College, Dublin. *They can also go through UnCover,* a commercial database containing bibliographic details of more than 7m articles from 17,000 English language periodicals.

Commercial database providers are also adopting Z39.50. Silver-Platter Information distributes more than 280 professional databases, mainly in the medical and scientific area. Last year it built a Web gateway to offer Internet access to its databases.

In spite of developing its own proprietary data-exchange protocol, DXP, the company recently adopted Z39.50. "Our goal is to build a worldwide library," says Gillian Reid-Holden, SilverPlatter's general manager. "For that you need interoperability."

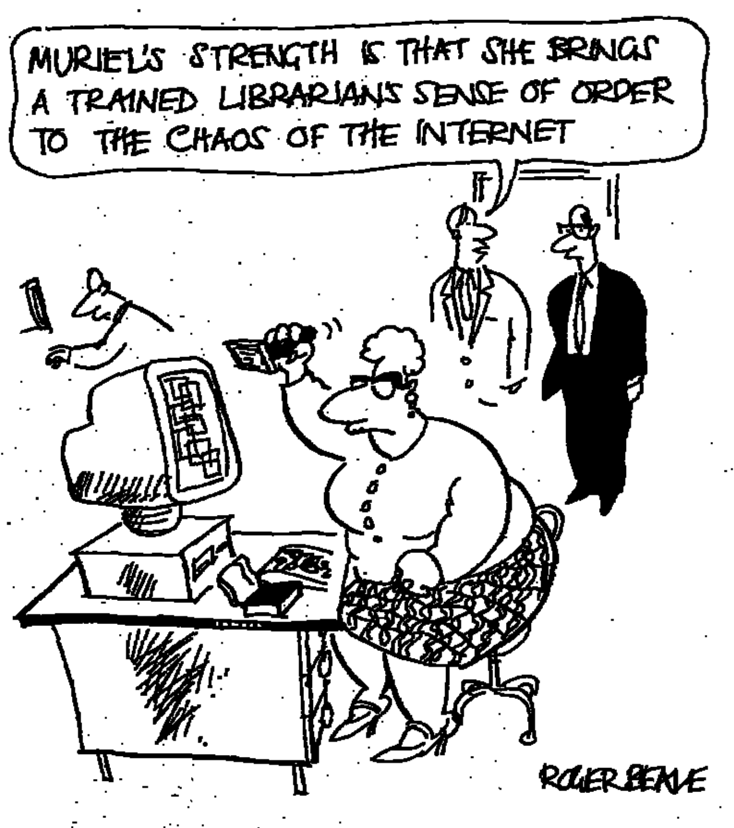
SilverPlatter's "worldwide library" envisages a future in which users will be able to conduct simultaneous and seamless Internet searches, using their preferred interface, across self-selected clusters of databases, regardless of who *the various content providers are or* the physical location of the databases. Such a vision raises questions about security and billing, suggesting that initially the protocol will be confined to the corporate Intranet.

Murray says: "Large enterprises tend to have tens or hundreds of internal databases. They probably also have access to external commercial ones. If all these databases were Z39.50-compatible, then rather than searching each database one by one, the user would be able to issue a single query and interrogate all those available to the enterprise in one go."

Francesca Green, senior analyst at the European Bank for Reconstruction and Development, wel*comes this scenario. With access to* four external online services and seven locally networked CD-Rom databases, she has to connect separately to each database and run a new search for each one using different commands. "To be able to search them all at once would be wonderful," she says.

The debate about Z39.50 is a timely reminder for the Internet community that not everything has to be built from scratch.

"Librarians have been dealing with computerised information for almost 30 years," says Neil Smith, head of network services at the *British Library. "There are lots of* ways in which the skills acquired by librarians could benefit the development of the Internet."



Scientists awaiting a phone call from ET say it is just a question of 'when' not 'if', explains Bruce Dorminey

Is there anybody out there?

As America watched hostile extraterrestrials wreak havoc in the new film *Independence Day* last week, an interdisciplinary colloquium of scientists converged on the Italian island of Capri to discuss their real-life search for alien intelligence.

For most of the 200 participants (including three Nobel Prize winners) at the week-long 5th International Conference on Bioastronomy, the question is not whether such extraterrestrial intelligence exists, but when, where and by what means it will be discovered.

The issue has heated up since the recent announcements of Jupiter-like gaseous planets circling relatively nearby stars. San Francisco State University's Geoff Marcy and Paul Butler reported yet another new planet, about 60 per cent of Jupiter's size and in orbit around Upsilon Andromedae some 40 light years away.

Of six known extra-solar planets, none is like earth. Earth-like planets could still exist in these newly discovered planetary systems, it is just that current technology is unable to detect them. No matter, extra-solar planets bolster the argument for extra-terrestrial life. Yet after surveying four of the six new systems, there are no signs of a radio signal.

Searching for intelligent narrow-band radio beacons from beyond the solar system has been a continuing process since 1959 when Frank Drake first directed West Virginia's Greenbank radio telescope towards Tau Ceti, a sun-like star 16 light years away. But MIT's Phil Morrison came upon the notion of looking for intelligent signals in frequencies ranging from 1,420 to 1,720 MHz (about the wavelength of a microwave oven). These frequencies encompass natural emissions of hydrogen and hydroxyl, both common in the universe.

In the last 25 years Seti (Search for Extra Terrestrial Intelligence) has been primarily conducted by four groups in the US: the California-based Project Phoenix, Harvard's Beta Project, Berkeley's Serendip IV and Ohio State University's Big Ear search. Argentina's Meta II project has a southern all-sky search and Australia has just formed a Seti Institute that would like to continue Project Phoenix's targeted southern star survey.

Yet astrophysicists everywhere cringe at the thought of being associated with either the expanding UFO field or the scores of people who claim to have been "abducted" by wayward aliens.

"Do I think we have ever been visited?" asks Stuart Bowyer, chairman of the conference's scientific organising committee and director of the Serendip IV search. "No. Do I think that we will ever be visited? No. The resources needed to produce an interstellar space vehicle are huge and then what do you do when you get there?"

If extraterrestrial intelligence were discovered, earth's perceived monopoly on intelligent life in the universe would be swept aside. "The problem is not that there won't be life out there," says Darren Leigh at Harvard. "The problem will be aiming telescopes at each other and starting a conversation. "We can now send interstellar telegrams out to 1,000 light years at an energy cost of about a dollar a word," he says. "Radio operators currently send each other signals by bouncing signals off the moon. With that same sort of equipment they could send radiograms to Alpha Centauri."

With a $3m (£1.9m) annual budget, the privately funded Project Phoenix can afford to complete its 1,000-star survey of sun-like stars within 150 light years of earth. After surveying 209 stars from listening posts in Australia, it has had 39 false positives, but no verifiable detection of any radio signals. From September, it will continue its search using the 140m-wide Greenbank telescope and a second, much smaller, radio telescope in Georgia for signal verification.

"I can't tell you how many civilisations are out there," says Bowyer. "But I can tell you once we get the carrier signal then it will be one year or less until we get TV pictures from them."

Perhaps the most famous signal seen as a real message was 1977's Wow! detection at Ohio State University, so-named for the exclamation scrawled by an excited staffer on the computer printout. "We went back 100 or more times in subsequent days and never found a thing," says Bob Dixon, the project director. "But we know it came from at least as far away as the moon and did have what communication engineers would have called sidebands which are what carries information in an AM [medium wave] broadcast signal."

While searchers can now process 250m channels simultaneously, present search strategies and protocols still suffer from lag time. Most Seti searches assume civilisations will be constantly communicating in a directed signal beacon, which precludes the possibility of a sweeping or intermittent beacon.

It is a question of being in the right place at the right time, while avoiding ever-increasing terrestrial radio interference. This is why some Seti searchers want to place a huge radio dish on the dark side of the moon. They have targeted a 100km-wide crater near the lunar equator, the only place in the solar system with no radio interference from earth.


On the lookout for extraterrestrials

LAW

Nationality curb ruled unlawful

EUROPEAN COURT

The general prohibitions on non-nationals occupying certain posts in the public sector in Luxembourg, Belgium and Greece were contrary to EC treaty provisions on freedom of movement for workers within the Community, the European Court of Justice ruled.

In three related cases, the European Commission brought proceedings against Luxembourg, Belgium and Greece over access to posts in fields as diverse as teaching, health, transport, post and telecommunications, and water, gas and electricity distribution. In the case of Greece, the prohibition extended to the Athens Opera and municipal orchestras.

Having sent letters of complaint and issued reasoned opinions to each of the states, the Commission brought three actions in the European Court of Justice complaining that Luxembourg, Belgium and Greece failed to fulfil obligations under the EC treaty and secondary legislation over freedom of movement for workers.

The treaty laid down the principle of the free movement of workers and the abolition of all discrimination based on nationality between workers of member states. It also stated that the provision in question was not to apply to employment in the public service.

According to the case law of the Court of Justice, this exception only covered posts which involved direct or indirect participation in the exercise of powers conferred by public law and duties designed to safeguard the general interests of the state or of other public authorities. This presumed on the part of the postholders a special relationship of allegiance to the state and reciprocity of rights and duties which formed the foundation of the bond of nationality.

The exception did not, therefore, cover posts which, while coming under the state or other organisations governed by public law, did not involve any association with tasks belonging to the public service properly so called. Having analysed the posts to which access was restricted, the court rejected all the arguments mounted in the three states' defence. In particular, it dismissed the objection raised by Luxembourg and Greece to the so-called "global" approach of the Commission, by which it had excluded entire areas from the public service exception without providing more details of the posts concerned.

The Commission argued that those posts were too remote from the specific activities of the public service to be covered in general by the exception. In those circumstances, it must be entitled to exclude application of the exception in all the areas raised in the proceedings, without any preliminary post-by-post examination.

The Commission also found that the activities performed in the areas in question also existed in the private sector or could be performed in the public sector without being subject to a nationality condition.

The court did not consider that this approach was affected by arguments put forward by Luxembourg concerning the preservation of national identity and its special demographic situation. In the Belgium and Greece cases, the court refused to take into account changes in legislation which had not been implemented before the expiry of the period set by the Commission in its reasoned opinion.

Similarly, the fact that after the expiry of that period a German musician who wished to be employed by the Athens Opera had been given a contract of indefinite duration, was irrelevant.

The court also rejected the request of Luxembourg that should it be found in breach of its obligations, it be granted a long period of grace in order to comply with Community obligations. The court observed that the EC treaty did not confer any power on it to grant a period of time for compliance.

Cases C-473/93 Commission v Grand Duchy of Luxembourg; C-173/94 Commission v Kingdom of Belgium; C-290/94 Commission v Hellenic Republic. ECJ (FC) 2 July 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Change of style at head of Swiss Re

Walter Kielholz, who succeeds Lukas Mühlemann as chief executive of Swiss Re after the latter's promotion last week to head the restructured Credit Suisse Group, is a marked contrast to his fast-moving predecessor.

An insurance industry veteran – Mühlemann is a former McKinsey consultant – Kielholz joined Swiss Re in 1989 as head of its Japan and the Far East sector. He had previously *worked at General Re, the US-based* reinsurer, and Credit Suisse, where he was responsible for customer relations with large insurance groups.

Within the organisation, the 45-year-old Kielholz (a year younger than Mühlemann) is regarded as clever and creative. Most recently he has had responsibility for "alternative risk transfer markets". This has included experimenting with complex financial instruments, and products which combine investment elements with risk transfer to find new ways of protecting insurers' balance sheets.

Swiss Re signalled last week that it expected little change in strategy under Kielholz, pointing out that he had worked closely with Mühlemann before the changes. Mühlemann remains on the Swiss Re board and will become deputy chairman.

Ralph Atkins

West managers named

Thomson Corporation has moved quickly to put its stamp on West Publishing, the US legal publisher recently acquired by the Canadian-controlled publishing and travel group. Thomson has merged West with its own extensive legal interests, creating West Information Publishing.

Andrew Mills, chief executive of Thomson's financial and professional publishing group, will also be West's chief executive. Brian Hall, formerly chief executive of Thomson's legal publishing division, has been named West's president. Hall joined Thom*son last year after a decade as presi*dent of Shepard's, a Colorado-based legal publisher owned by McGraw-Hill. He will move to West's head office in Eagan, Minnesota.

Another Thomson executive, Dennis Beckingham (pictured above), has *taken over as chief financial officer.* Beckingham previously oversaw the finances of Thomson's financial and professional publishing group.

West's former chairman and president, father and son Dwight and Vance Opperman, have been named chairman emeritus and chairman respectively of the new division. The Oppermans were among 200 employee-shareholders bought out by Thomson in the US$3.4bn deal.

Bernard Simon

NYSE hires Belgian

The New York Stock Exchange's push to attract non-US companies to its lists should get a lift with the arrival of Georges Ugeux on October 1. He will be group executive vice president, international, and become the fourth member of the office of the chief executive.

The new post underlines the exchange's ambitious global plans. Richard Grasso, chairman, is fond of remarking that if only the top third of the 2,000 non-US companies qualified to list on the NYSE did so, it would double the exchange's market capital*isation from its current $6,500bn.*

Around 260 non-US companies have their shares listed on the Big Board, through American depositary receipts which are traded in dollars. However, the exchange has quietly dropped plans to begin trading in non-US com*panies shares in their home curren*cies. The intention had been to start a pilot scheme this autumn using up the shares of up to 10 large international companies. But the plan has been put off, with no firm date set for a start.

Ugeux is a Belgian national with extensive banking and capital markets experience in Europe, having worked for Société Générale de Banque, Morgan Stanley's London office, and Kidder Peabody in Europe. He is currently president of the European Investment Fund, the agency which backs small and medium-sized European enterprises. He also chairs Belgium's privatisation agency.

Maggie Urry

Changes at Macquarie

Macquarie Bank, the only major Australian-owned investment bank, *which is due to make its stock market* debut in a matter of weeks, has named two joint deputy managing directors, under Allan Moss, managing director. They are John Caldon, who heads the bank's corporate finance division, and Richard Shep*pard, who runs the corporate banking* and corporate affairs group. Both have been with the bank for over a decade: Caldon joined 11 years ago, when Macquarie was still the old Hill Samuel Australia operation, while Sheppard has worked for the group *since 1975. Nikki Tait*

Keil quits Republic

Jeffrey Keil, one of the closest associates of Edmond Safra, the secretive Swiss-based financier, is resigning as president of Republic New York Corporation. He is setting up an investment partnership which will invest in the financial sector of Israel.

Safra, who controls a network of banks around the world, owns 27 per cent of Republic, a US bank holding company with assets of $41.5bn. Keil, 53, joined Republic 25 years ago, and has been heavily involved in helping Safra build Republic into one of the top 20 US bank holding companies. Keil is leaving the group at the end of September and is setting up Keil Investment Partners, with the help of Lazard Freres.

He will remain on the Republic board and Safra has indicated that if circumstances permit he would hope to invest in Keil's new partnership. But despite the amicable parting of the ways, Keil's departure has caused some surprise on Wall Street. He is one of the youngest members of the board and seemed a natural successor to Walter Weiner, 65, Republic's chairman and chief executive. Republic has yet to name Keil's successor.

There have been suggestions that Keil's departure may have been prompted by Republic's conservative *growth strategy. Although Keil's* skills are in investment banking, Republic's strength lies in retail and private banking on the back of its strong balance sheet. Keil says that he is leaving the safest bank in the world. "That is what Edmond wanted Republic to be, and I have strived to contribute to his vision." *William Hall*

ON THE MOVE

■ Marcia De Wachter succeeds Jean Poullet as secretary-general of the BELGIAN NATIONAL BANK. De Wachter worked in the office of former prime minister Wilfried Martens from 1986-88. She joined the central bank as an adviser in 1988.

■ Orsa Khunawat, 59, has become the first woman to head the MASS COMMUNICATIONS ORGANISATION OF THAILAND, which operates the Thai News Agency and radio and television channels. *She succeeds Saengchai* Sunthornwat, who was murdered in April.

■ Richard Gordon Atkinson rises from vice-president consumer marketing to president of TIME Inc. Atlantic. He succeeds Robert Crozier, who has left by mutual agreement with the board.

■ Bernd Menzinger, 59, becomes the first non-railwayman to chair INTERCONTAINER INTERFRIGO (ICF) which acts on behalf of 28 European national railways. Menzinger, former chief executive of Danzas, the freight and forwarding group, replaces Alain Poinssot. Wolfgang Gritz is stepping down as ICF's joint managing director, leaving Soren Rasmussen in sole charge of the group.

■ Rod Chadwick, the incoming managing director of PACIFIC DUNLOP, has named four executive general managers: Ian Veal (strategic direction); Philip Gay (finance); Paul Dainty (on secondment from Melbourne Business School – organisation development and learning); and Howard McDonald (Pacific Brands, with responsibility for a strategic review of the $1.3bn consumer products group).

■ Martyn Lowry has been appointed director of European public affairs at EDS, the information technology services provider. He previously held a similar role at Apple Computer Europe.

■ Thomas Nystén, 57, and Antti Sojakka, 46, join the operative management board of METSA-SERLA, the Finnish forestry group, with respective responsibility for marketing and sales, and development of the packaging business. Christian van Niftrik, senior executive vice-president for converting business, retires on August 1, when Juhani Saarela, 41, becomes head of the tissue division.

■ Alan McGilvray succeeds Herbert Brenneiser as managing director of BAYER (India), part of the chemical and pharmaceutical group.

■ Gil Harris has been appointed vice-president and general auditor of LUCENT TECHNOLOGIES, one of the units formed on the break-up of AT&T. He is currently a partner of Coopers & Lybrand.

■ Barbara Mason rises to senior vice-president, retail *marketing at Canada's* SCOTIABANK. She was most recently vice-president retail marketing.

■ Edmund Belak becomes head of HILL AND KNOWLTON's US financial communications practice. Jeff Zilka becomes deputy director.

■ Arthur Lipper, appointed chairman of BAT International on April 20, resigned on June 13. BAT says it is seeking a qualified motor industry executive to replace him.

■ New Zealand brewer LION NATHAN has appointed Tony Van Kralingen, previously director of operations of South African Breweries, as head of *its Australian operations after* the departure of Leon L'Huillier.

■ Percy Allan, 49, finance director of BORAL, the Australian energy and building materials group, is leaving after two years in the job. He is being replaced by Brian Hill, formerly with biscuit maker Arnotts.

■ Kevin Dougherty becomes vice-president, group insurance for Canada at SUN LIFE ASSURANCE COMPANY OF CANADA. Marcel Gingras becomes vice-president, individual insurance for Canada and Dikran *Ohannessian*, vice-president, business practices.

■ Roger Hay, chief financial officer of Titan Corporation, based in California, is leaving to become chief financial officer for PINNACLE MICRO.

■ Mike Fernandez, 39, formerly with Eastman Kodak, has become vice-president of public relations for US WEST COMMUNICATIONS.

■ Rodney Linford succeeds George Kersels as general manager for space flight programmes at MCDONNELL DOUGLAS.

■ Albert Luke becomes staff vice-president for strategic development at DRESSER *INDUSTRIES, the Dallas-based* energy resources group. He was previously vice-president, alliance operations at M.W. Kellogg, Dresser's engineering and construction subsidiary.

■ Diane Cairns becomes senior vice-president, production at UNIVERSAL PICTURES. She joins from International Creative Management.

■ David Brubaker becomes director of south-east Asia manufacturing at EASTMAN KODAK.

■ Joy Thoma has been named senior vice-president of planning for the Asia Pacific region at MASTERCARD *INTERNATIONAL.*

■ Dieter Wissler is to head Novartis's German unit, following the merger between Ciba Geigy and Sandoz.

■ Khalid Ismail is to chair the JARDINE MATHESON Group in Malaysia, with a seat on the Asia Pacific regional board of Jardine Matheson Holdings. *Ismail* recently retired as secretary general of the Malaysian civil service.

■ Paul Sneddon becomes president and chief executive of HJ HEINZ of Canada and chief executive of Heinz Bakery Products. He replaces John Crawshaw, who will head Heinz's Pacific Rim businesses.

■ Lee Suan Yew has resigned from the board of HOTEL PROPERTIES in Singapore.

■ Chay Kwong Soon, co-founder, president and chief operating officer of CREATIVE TECHNOLOGY, the computer sound board maker based in Singapore, has resigned. He will remain a director.

■ Richard Cavill, deputy chairman of SOUTHCORP HOLDINGS – Vintner and industrial group, has retired. He will be replaced by Helen Lynch.

■ William Harper, chief financial officer of NATIONAL STEEL Corp of the US, has *resigned.*

■ Bruce Nakao has resigned as chief financial officer of Adobe Systems, to take the same role at PUMA TECHNOLOGY. Charles Geschke, president of Adobe, will take temporarily take over Nakao's responsibilities.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. *Set fax to 'fine'.*

Closer look at Bacon

William Packer visits an important retrospective exhibition in Paris

Francis Bacon died four years ago at the age of 82, though by the apparent vigour of his work to the last, he hardly seemed so old. Yet he had been a central, if singular figure in British art for almost 50 years, and already a marked and coming man for some time before that.

Such people are well able to sustain their own myth, and Bacon evidently relished and cultivated that singularity. He was clearly the most famous and internationally successful British painter in his lifetime but, more than that, he was defiantly the odd man out – a figurative painter, symbolist, surrealist and expressionist in a world of cooler abstraction and conceptualism, and living a life to match.

But as time goes on, so we begin to see his *oeuvre* from first to last, despite its contradictions and shifts of emphasis, as all of a piece. He may have destroyed most of his early work and stopped painting for a while: he may seem consciously to have set his mature career and reputation on the still extraordinary triptych of 1944, "Three Figures at the Base of a Crucifixion", by which he marked the moment he began to paint again and first came before a wider public. Even so, enough of the earlier work survives and, piece by piece, comes back into the light, to qualify that self-presentation.

Artists have their own position, which is not necessarily ours. They are not always the best judges of their own work, standing so close to it, perhaps, as to see the trees but not the wood. The true artist will always do more than he knows, let alone intends, and Bacon himself insisted upon the primary importance to the painter of chance and intuition and pure luck. "That is why real painting is a mysterious and continuous struggle with chance", he wrote in 1953.

Three years ago at Venice the critic David Sylvester effectively reintegrated Bacon's work after 1945 with that of the previous 20 years or so, testing the view that Bacon's greatness rests on that earlier work. Now in an ampler selection for the Centre Pompidou, he throws that question open again, and makes if anything, and perhaps unconsciously, the further point that Bacon was never at all the eccentric and isolated figure of received opinion.

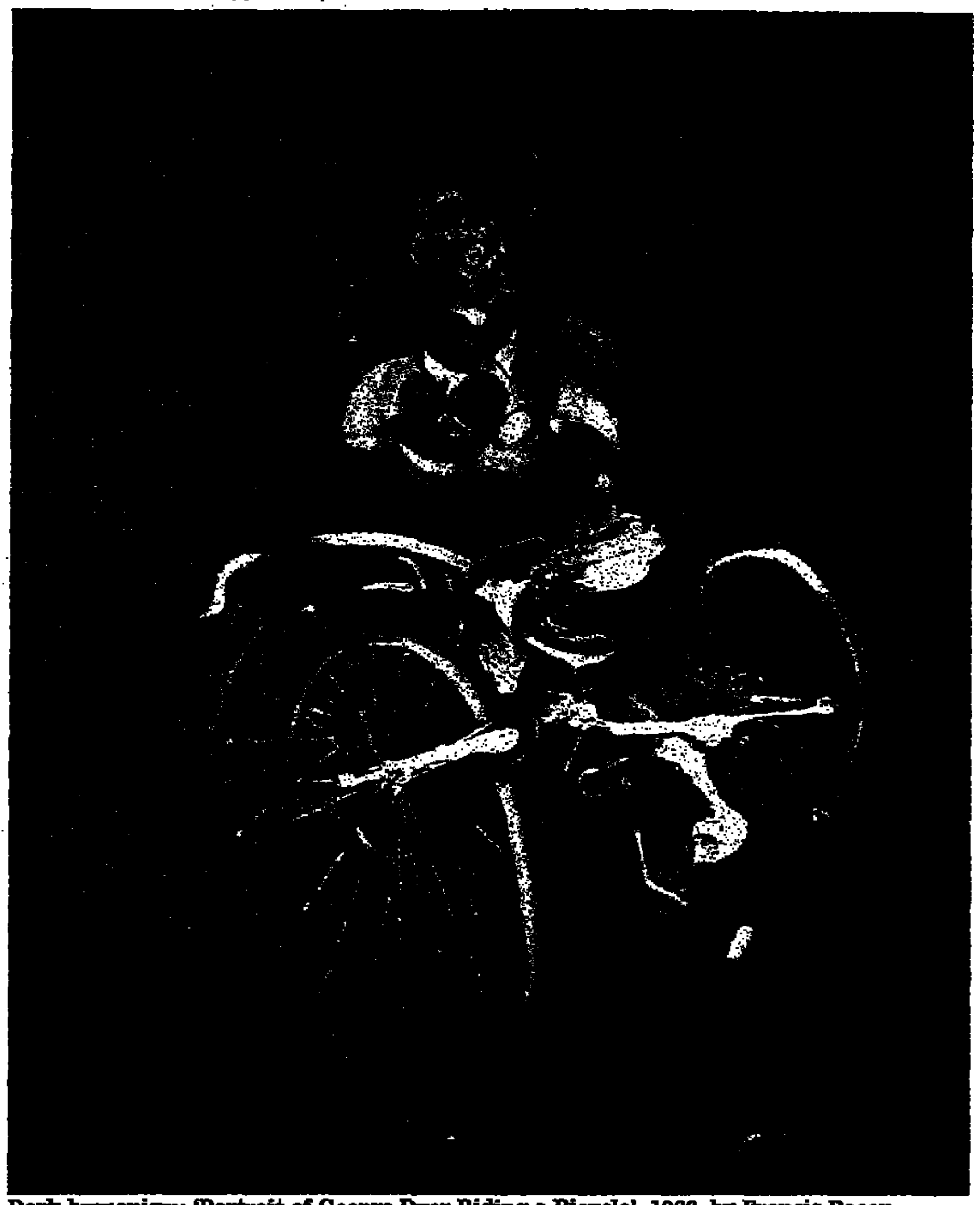
Which brings us back to the young Bacon of the 1930s and his work of the time. Few as the examples are, they are more prominent here than ever before. Here is the Bacon of the avant-garde circles of Moore, Sutherland, Pasmore and de Maistre, the Bacon who turned down Roland Penrose's invitation to show in the Surrealist Exhibition of 1936. And here is the small "Crucifixion" of 1933, that Herbert Read reproduced alongside a surreal and grotesque Picasso "Baigneuse" in his book, *Art Now*.

Here then, in the common stock of 1930s surrealism, lie the origins of that "Crucifixion" triptych of 1944, and all the disembodied figures, gaping mouths, bared teeth, screaming Popes, that were so soon to follow. But there are also two quieter, more ambiguous paintings of about 1936, an "Interior of a Room" and "Figures in a Garden", that are no less significant. For already they describe the shallow, angular pictorial space that was to be Bacon's device of a lifetime – the open space-frame, the enclosing screen. And with as yet no idiosyncratic horrors to register, they sit happily at the centre of cosmopolitan modernism, looking to Matisse and Braque on the one hand, and to incipient British neo-romanticism on the other, to Sutherland – with whom a creative association lasted throughout the 1940s – Ceri Richards and Eileen Agar.

Thus primed, the comparisons come thick and fast, and not necessarily one way. The crouching and sitting figures of the later 1940s summon up Magritte; a grey figure study (1957) suggests Giacometti; a mountain landscape (1956), David Bomberg. And such current luminaries as Penke, Baselitz, Clemente and Salle are all prefigured in the images of the 1950s. To say as much takes not a whit away from Bacon's interest, originality or importance as an artist, but only from that supposed isolation.

Bacon remains unquestionably a remarkable and major artist, and the better for the loss of his splendid isolation. His faults we can live with – his feeble drawing more than made up for by the often exquisite delicacy and subtlety of his touch as a painter. The later works remain for me a problem, more for the over-blown scale on which they are too often set, which exposes the drawing and over-extends the paint upon the surface, than for their actual imagery. The sets of small portrait studies, close and intense, early or late, are as strong as ever. And the heavy cloud of his bleak, dark, despairing humanism hangs over it all.

Francis Bacon Retrospective: Centre Georges Pompidou, Paris, until October 14, then on to the Haus der Kunst, Munich: exhibition organised by the Centre Pompidou in collaboration with the British Council.



Dark humanism: 'Portrait of George Dyer Riding a Bicycle', 1966, by Francis Bacon

Weird stuff – but first rate

Ian Shuttleworth is tangentially challenged by Sam Shepard dramas

For three weeks, Battersea Arts Centre has become a temple to America's greatest living exponent of oblique drama, Sam Shepard. His face (or at any rate the left half of it) gazes down from walls; the café and bar play a selection of Shepard-programmed music ranging from Eric Dolphy to his former New York cohort Patti Smith and Ry Cooder's soundtrack to *Paris, Texas* (co-scripted by Shepard); and a number of late night shows are presented in addition to the three main evening productions.

The main performance base hosts *States of Shock*, premiered off Broadway in 1991 and an excellent introduction to Shepardian arcana. Into an ordinary diner come a traumatised wheelchair-ridden young man and a colonel in pompously over-decorated dress uniform. Their meal is interspersed with, and finally overridden by, the colonel's desire to force young Stubbs (a remarkable performance by Jason Done) to relive the battle in which the colonel's son was killed.

As the 70-minute show progresses, fragments of truth emerge, but Shepard leaves it to the audience to assemble these into a cubist picture of a family in denial. At the next table, the difficulties of Mr and Mrs Middle-America draw indirect parallels with the tensions and complexities of the nation as a whole. Behind a gauze at the rear of the stage, a couple of percussionists are let loose periodically, though not often enough to create the oppressive sense of distant artillery fire which director Michael Kingsbury intends. This is weird stuff, to be sure, but first-rate weird stuff.

Studio Two's 85-minute show, *Suicide in B Flat* (1976), is if anything even more tangential. Director Andrea Brooks adroitly follows Shepard's advice not to try to "solve the play". That task is left to a couple of investigators (Ian Barnes and the fine Shaun Prendergast), and it is one at which they inevitably fail. Is composer Niles really dead? If so, why and how? If not, whose corpse, its face blown off, have they discovered in his apartment? In either case, what kind of limbo are Niles and his childlike companion Paulette inhabiting, that they can half-kill the investigators at close range without being noticed?

Don't ask me ... or Shepard. What matters are the tensions and contrasts between the men in suits, a couple of jazzers who worked with Niles and the ethereal duo – the interplay of mentalities, reason versus instincts and several conflicting instincts at that. It is as if the only way to approach profundity is through a partial and hallucinatory modern fable; it is also the closest I have seen to conveying the tangled spirit of modern jazz in drama.

A Lie of the Mind (1985) in Studio One is the only two-act play. Its narrative is more linear and bears a closer relationship to reality, but within this framework sit two families in which each member has his or her own quirks and dysfunctions. After Jake has left his wife Beth for dead on a highway, he retreats into psychosis in his own home whilst she slowly recovers from severe brain damage in the warped bosom of her family. Melissa Chalsma is terrific as Beth, her elliptical outbursts serving as the principal vehicle for Shepard's authorial comments on the human mind and heart. The patterning of the play is a little too deliberate, with motifs being picked up from scene to alternating-family scene and great care taken to display the central lie in each character's mind, be it a concept of family, love or morality.

For this reason, although Toby Reisz's production (with its largely American cast) is every bit as tight and intelligent as the other two, *A Lie of the Mind* is somehow less satisfying: the meaning is delivered on a platter rather than our having to track it down through snows of bewilderment. Shepard is a writer for whom the word "difficult" is a term of approval, and the work on show at Battersea ably demonstrates that clarity and directness are not at all the same thing.

All three shows at BAC, London SW11, until July 20 (0171-2232223).

Ballet in Amsterdam/**Clement Crisp**

In great rapport with Balanchine

How satisfying, and how rare nowadays, to leave a theatre on two successive evenings, exhilarated – almost intoxicated – by the dancing one has seen. With so much of today's programming we make excuses, voice hopes, and cast stories of the death of ballet. Not so, I found, as last week ended in Amsterdam and the Dutch National Ballet began a small but significant festival of Balanchine's work in the splendid Muziektheater. There are nine pieces on view, nicely balanced in three programmes. Their presence is no novelty: DNB has long treasured a serious, 25-work Balanchine repertory.

In the decade since the choreographer's death, his creativity can be seen ever more clearly as a leavening, revivifying force, telling of the primacy of classic dance, and reminding audiences and dancers alike that his ballets bless and brace and illuminate. What delights me, who have been watching them over 50 years, is their continuing power to astonish. Craftsmanship is transcendent – they are beautifully made, products of a great cabinet-maker – and they reveal, in loving and idiomatic performance, an ever-fresh mastery. (*Agon*, nearly 40 years old, remains one of the central masterworks in the arts of our century, and still seems adventurous – far more daring than the neurotic kick-boxing of William Forsythe and his devotees).

The Dutch ensemble looks fine in Balanchine, and Balanchine looks fine in their performance. It is a tribute to Wayne Eagling, DNB's artistic director, that the dancers have so assured a manner for this repertory: I sense that he has given a clearer edge to their style. It is also a tribute to Karen von Aroldingen, grand Balanchine dancer who has coached the present season.

It is no less a tribute to the DNB orchestra, under Paul Connelly and Andrew Mogrella, that the musical floor of the dance was so polished, so springy. The dance grew, as it must with Balanchine, from an alert response between stage and pit. Not least of the rewards in these evenings was that the stage looked so alive, its space so vital. The design for six ballets amounted to four chandeliers for *Theme and Variations*. Costuming, except for the same ballet's stylish tutus and jerkins, was of the simplest, set against a cyclorama. The company could tour with minimum decorative freight to maximum artistic effect. How unlike the Brobdingnagian luggage of troupes and repertories nearer home, burdened with the vulgar disguises and knick-knackery that, even so, do not obscure the shoddiness and indecision of the dance.

Balanchine's choreographies, stripped to their essence, spoke during these two evenings with a sublime honesty. They are like missionaries, for Balanchine's work now feeds companies round the world, and his art seems almost that of a diaspora – scattered in this instance from the former New Amsterdam to old Amsterdam itself.

In the first evening, with *Serenade*, *Agon*, *Symphony in Three Movements*, I renewed acquaintance with a company much livelier than when I last saw it. A strong pulse to the dance, the right sense of dynamism – no soft edges, save properly so in *Serenade* – and something both quick-footed and joyous in the Stravinsky symphony. In Nathalie Caris, the central woman in *Agon*, a dancer of potent temperament who shaped the pas de deux with Boris de Leeuw impeccably; in Enrichetta Cavallotti, a dancer whose every step in the symphony was pungent, fascinating.

The second programme began with *Theme and Variations*, Balanchine's tribute to the old Petersburg's ballets. With a Petersburg artist, Larissa Lezhnina, at its heart, the resonances of the piece were clear. Lezhnina was a young Kirov star whose Aurora was a golden creation. She has been with DNB for the past few years, and has grown into a radiant, assured ballerina. Her serene style, the way in which the dance flowers through the torso and is crowned by the arms, is ideally seen here: the choreography glows.

In Balanchine's late and teasing setting of Hindemith's *Kammermusik No. 2* – a chorus of eight boys surround two darting, dazzling women in unguessable but thrilling games – and in the staggering *Violin Concerto*, the Dutch ensemble and its admirable principals gave disciplined, vital accounts, making grand sense of masterworks. They had been nourished by the dance. And so, gratefully, had we.

The Dutch National Ballet Balanchine season continues at Amsterdam's Muziektheater until July 13.

The Doctor of Myddfai

David Murray reviews Peter Maxwell Davies' new opera

Sir Peter Maxwell Davies has written a new work for the Welsh National Opera, *The Doctor of Myddfai*, which he suggests may be his last opera. For once he has chosen another person to be his librettist – David Pountney, a renowned opera-producer as well as a skilful translator; together they hit upon a suitable Welsh legend, and devised a modern parable to enclose it. The mysterious story employs a large cast, and contrives to include some hymns in Welsh for the sake of the WNO's famous chorus.

The Cardiff premiere last Friday is to be followed by two performances in Llandudno (this Wednesday and Saturday), and in the autumn the WNO will tour it through its usual ports of call. The Cardiff audience faced up to it rather well: puzzled, reasonably enough, at the end of the first act, but heartened by the overt drama of the second – and the opera is quite compact.

Some 800 years ago, it seems, the physicians of the little village of Myddfai were famous for their herbal lore. They acquired it, so the legend goes, with the help of a beautiful woman who rose from a lake, but was fated to return there if and when her mortal husband should strike her three times, as in due course he did. As the opera begins, the latest Doctor of Myddfai is recounting the story to his daughter; at the end she has stepped into his role.

The time is the near future, when Wales – already denied its name – is a fringe outpost of a bureaucratic European empire. A plague is raging, though officialdom denies it: anyone who is struck in the rain develops a horrible, spreading bruise which invariably proves fatal.

The Doctor tries to persuade the lofty Ruler to acknowledge it, and succeeds at last only by striking him, with the usual result. While the Ruler is brought face to face with his own mortality, the Doctor becomes carried away by his own aura as a great healer. You may conjecture about the rest.

Maxwell Davies' score is pithy and striking. His penchant for hooting brass and a great variety of percussion is risky for the words, particularly in the first act, and there is sometimes a sense that the orchestra is making busy patterns of its own which are only obscurely related to the action; but the second act settles nicely into strongly contrasted numbers and *scenas*, and builds up a considerable head of theatrical steam.

There is a taut, upstanding performance by Paul Whelan as the Doctor, always superbly audible over the churning orchestra, and a noble, disillusioned Ruler from Gwynne Howell. Why, exactly, the Doctor should appear as a woman to deliver the *coup de grace* remains a mystery, but Whelan carries it off with panache.

Anyway, I always suspected that the stately, long-legged women who haunt Pountney's productions were men in drag, so the twist came as no real surprise. His production here is incisive as usual, in Su Huntley and Donna Muir's bold, fascinating designs. Lisa Tyrrell scores a bright-voiced success as the daughter; all the smaller parts are energetically taken, the chorus swings fervently into its hymns, and Richard Armstrong has trained the orchestra to a confident pitch.

The action leaves tantalising loose ends, the better to provoke our imaginations.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-5518117

● Het Nationale Ballet: perform Balanchine's Serenade to music by Tchaikovsky, Agon to music by Stravinsky and Symphony in Three Movements to music by Stravinsky. Part of the Balanchine Summer Festival; 8.15pm; Jul 9, 12

EXHIBITION
Rijksmuseum Tel: 31-20-6732121

● South Wing: The wing reopens after three years of renovation – 18th and 19th century paintings, Asian art, costumes and textiles in 16 new rooms; to Sep 22

AVIGNON

FESTIVAL
Festival d'Avignon
Tel: 33-90 82 67 08

● Festival d'Avignon: theatre festival established by Jean Vilar in 1947 in order to provide a context for theatre-going different fromthat of the Paris boulevard theatres. The festival is always held in July, when commercial and state theatres in France are closed.
With its increasing popularity, it has opened out gradually to embrace other genres such as dance and music.
This year the 50th edition is held. This year's theatre highlights include Aimé Césaire's La Tragédie du Roi Christophe, directed by Jacques Nichet, and La Nuit du Théâtre, which will be broadcasted live on French television (Jul 28).
Other highlights include performances by Bill T. Jones and the Arnie Zane Dance Company, featuring choreographies by Bill T. Jones, the celebration of the 20th anniversary of the Centre Acanthes, with the co-operation of Pierre Boulez, Henri Dutilleux, György Ligeti and Iannis Xenakis, and the exhibition Deux Palais pour Rodin in the Palais des Papes and the Petit Palais, devoted to Rodin; from Jul 9 to Aug 3

BERLIN

EXHIBITION
Berlinische Galerie – Martin-Gropius-Bau
Tel: 49-30-254860

● *Anne Ratkowski: Eine vergessene* Künstlerin der Novembergruppe: exhibition devoted to the work of the German painter Anne Ratkowski, a member *of the Novembergruppe*, a movement of Expressionist artists formed in Berlin in 1918. The display includes still lifes and portraits; to Oct 13

BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267-9300

● Gauguin and the School of Pont-Aven: this exhibition features 80 oil paintings, 30 works on paper and four sculptures, including works by Gauguin, Bernard and 18 other artists associated with Gauguin's presence in Brittany; to Sep 15

BRUSSELS

EXHIBITION
Musée Communal d'Ixelles
Tel: 32-2-5119084

● Groeninge Collection: exhibition of works from this collection of contemporary art, assembled over *the past 10 years* by a group of Belgian collectors. The collection includes works by Richter, Panamarenko, Fabre, Frère, Carlier Oursler, Keith Haring, Allan MacCollum, Mike Kelley, Sol LeWitt and others; to Jul 28

EDINBURGH

EXHIBITION
Scottish National Gallery of Modern Art
Tel: 44-131-5568921

● *Alberto Giacometti 1901-1966:* the first significant exhibition of Giacometti's work in Britain since the retrospective held at the Tate Gallery in 1965. The exhibition comprises some 80 sculptures, 30 paintings and a selection of drawings. These include sketches and paintings made by Giacometti in his youth, surrealist sculptures of the early 1930s and the celebrated series of tall standing figures begun immediately after the second world war; to Sep 22

LONDON

EXHIBITION
British Museum
Tel: 44-171-6361555

● Vases and Volcanoes: Sir William *Hamilton and his collection:* exhibition focusing on the 18th-century antiquary, connoisseur and natural historian; to July 14

MUSICAL
Ahmanson Theater
Tel: 1-213-972-0700
● *Carousel: by Rodgers and* Hammerstein. Directed by Nicholas Hytner and performed by The Royal National Theatre; Tue - Fri 8pm, Sat *2pm & 8pm, Sun 2pm; from Jul 10* to Aug 25 (not Mon)

NEW YORK

EXHIBITION
Whitney Museum of American Art
Tel: 1-212-570-3600

● Shigeko Kubota: exhibition featuring a new installation of metal, *mirror*, video, and motorized sculptures, created between 1992 and 1996 by Shigeko Kubota. The sculptures - some first shown at the 1993 Venice Biennale - include "Bird II", "Windflower", "Video Flower", "Windmill II", and "Video Tree"; to Aug 25

PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33

● L'informe: exhibition focusing on the history of Modernism. The display includes works by Pollock, Duchamp, Fontana, Smithson, Warhol, Hesse, Dubuffet, Rauschenberg and others; to Aug 26

SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000

● Hooray for Hollywood!: a *celebration of Hollywood film scores*, featuring the San Francisco Symphony with conductor Emil de Cou, Broadway and film actor Joel *Grey, and dancers Evelyn Cisneros* and Stephen Legate. Opening night of the San Francisco Symphony Pops; 8pm; Jul 12

SYDNEY

OPERA
Drama Theatre, Opera Theatre, Playhouse
Tel: 61-2-250-7127

● Lucretia Borgia: by Donizetti. Conducted by Patrick Summers and performed by the Australian Opera. Soloists include Nelly Miricioiu, Suzanne Johnston, Gregory *Tomlinson and John Wegner;* 7.30pm; Jul 9, 13

VIENNA

EXHIBITION
Graphische Sammlung Albertina
Tel: 43-1-534830

● Von Schiele bis Wotruba. Arbeiten auf Papier 1908 bis 1938: exhibition of approximately 150 works on paper, created by 58 Austrian artists between 1908 and 1938. Artists represented include Gustav Klimt, Egon Schiele, Oskar *Kokoschka, Alfred Kubin, Max* Oppenheimer, Herbert Boeckl, Albert Paris Gütersloh, Max Weiler and Fritz Wotruba; to Aug 18

WASHINGTON

EXHIBITION
National Portrait Gallery
Tel: 1-202-357-1915

● *1846: Portrait of the Nation:* celebrating the 150th anniversary of the founding of the Smithsonian Institution, the exhibition describes, *in illustrations, manuscripts, clothing* and sculpture, the political, cultural and social character of America in 1846 by focusing on leading figures *of the time; to Aug 18*

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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Squawk Box

10.00
European Money Wheel

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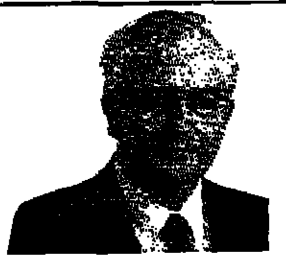
Financial Times Business Tonight

COMMENT & ANALYSIS



Martin Wolf

The fiscal trap for Labour

The party has dropped most of its seriously wrong solutions to the economy's problems but its new ideas are unlikely to lead to improved growth

Mr Boris Yeltsin's success shows that anything is possible in politics, even resurrection of the electorally dead. But the overwhelming odds are that Mr John Major will not manage to return to life in a similar fashion. So how might the economy fare under Mr Tony Blair's New Labour? Would he avoid raising taxes? Would he increase the economy's long-term rate of growth? Would he lower the underlying rate of unemployment? The answer to these questions has to be no.

Labour may not have the right answers, but it has at least dropped most of the seriously wrong ones. The result is a split personality. "New Labour, new Life for Britain", the proto-manifesto published last week, may condemn Tory misrule, but its authors also accepts large chunks of Conservative thinking. On macroeconomic policy, for example, the document claims that "we will set strict rules on spending and borrowing". Moreover, "the priority must be stable, low-inflation conditions for long-term growth".

It sounds most attractive. Unfortunately, Mr Gordon Brown, Labour's putative chancellor of the exchequer, will find himself facing fiscal difficulties from the very start. Considerable effort will be needed merely to control the growth of fiscal deficits and debt, as today's revised forecast from the Treasury should make clear to anyone who reads between the lines.

Mr Bill Martin, chief economist of UBS and ever a thought-provoking maverick, has argued that the public sector borrowing requirement, far from dwindling away as Mr Kenneth Clarke, the chancellor, forecast last November, could remain at an unacceptably high 4 per cent to 5 per cent of gross domestic product for the rest of the decade. This is not implausible. All Mr Martin does is assume that public spending and GDP grow in line with historic trends.

What has already happened since Mr Clarke claimed to have solved the problem of the public finances in his Budget of November 1993 suggests this gloomy view could well be right. As the chart suggests, the rapid economic growth of 1994 improved the public finances by more than had been expected in November 1993. Since then things have been all downhill.

The outcome for the PSBR in 1995-96, at 4½ per cent of GDP, must be compared with the 4 per cent forecast last November and the 3 per cent forecast in November 1994. In its latest forecasts, Goldman Sachs suggests the 1996-97 outcome will be close to 4 per cent of GDP, up from the 1¾ per cent forecast in November 1994, while the outcome for 1997-98 will be about 3½ per cent of GDP, up from the ¾ per cent forecast in 1994.

What has gone wrong? Part of the answer is a shortfall in receipts from taxation. Another has been disappointing economic growth. Last November's forecast of 3 per cent growth in 1996 is likely to be half a percentage point too high and it follows an even larger exaggeration of 1995 growth in the forecast of November 1994. There are also the tax cuts of last November, which will reduce revenues by more than half a percentage point of GDP in 1997-98.

For Labour, the problem is worse than it appears to be, partly because there are likely to be yet more tax cuts in November, but principally because the government's forecasts rest on implausibly tight control over public spending. In November 1995, for example, Mr Clarke forecast that government spending would, to all intents and purposes, not rise at all between 1995-96 and 1998-99. It stretches credulity to accept that even the Tories would achieve this. It seems inconceivable that Labour will – or would want to.

The fiscal cupboard is bare. Under plausible assumptions, as Mr Martin argues, the ratio of the fiscal deficit to GDP may have to be cut by 2 percentage points, amounting to some £16bn a year – the equivalent of 8p in the pound on the basic rate of income tax. And even this would finance real growth of public spending after 1997-98 only in line with its long-term trend of some 1¾ per cent a year.

The attractive ways out of the fiscal trap are, of course, faster growth and lower unemployment. Gloomy forecasts, such as Mr Martin's, assume economic growth will be only 2 per cent a year from next year, in line with the long-run trend since 1979. Could things be better? Labour's answer is a "medium-term growth strategy" which "will encourage long-term investment and increase sustainable growth". Will New Labour's new ideas lead to brighter growth? There are two big reasons and plenty of little ones for doubt.

The big reasons are, first, that raising an advanced country's rate of economic growth seems to be hard. Second, so many different policies have already been tried. Yet the UK's rate of growth has been amazingly stable: the economy has grown at an average compound rate of close to 2 per cent since 1820; since 1900, the rate of growth has been the same; since 1945, it has been a little faster, at 2.2 per cent; but it has been back to 2 per cent since 1975. As Henry Ford would have said, the British can have any rate of growth they want, so long as it's 2 per cent.

Is a Treasury under Mr Brown going to make the difference? Partnership between private enterprise and the government is one of New Labour's buzzwords. This is a tricky idea. Partnership can too easily mean public funding of unprofitable activities.

Improving skills is the other: "We will not succeed unless our people are equipped to do so. That means skills and education." This phrase is followed by a commitment to guaranteeing nursery education for all three- and four-year-olds. By the time these children are revolutionising the British economy, Messrs Blair and Brown will be pensioners.

Add the various notions together and they still do not amount to much. Handled carelessly, they would make things worse. Handled carefully, they just might make them a little better.

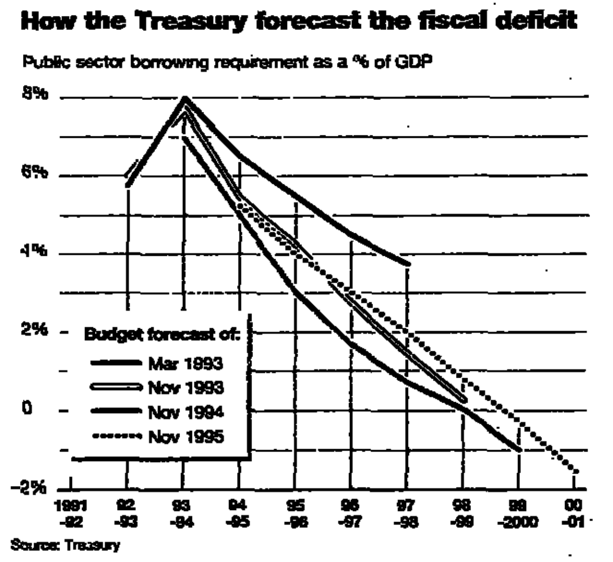
In one respect, they seem certain to make things worse. That exception is unemployment. Here there is a gimmick and a bad idea. The gimmick is a one-off "windfall levy" – a retrospective tax to you or me – on the "excess profits" of the privatised utilities to fund job programmes for long-term and youth unemployment.

The bad idea is the minimum wage. It is a bad idea because it is bound to hurt employment without benefiting the poor. As the Institute for Fiscal Studies has noted, the largest gains accrue to households in the middle of the income distribution, because most of those who receive low wages are secondary earners, either in a couple or children living with their parents. As for the effect on employment, that would depend on the level of the minimum and the extent to which higher-paid workers would restore their differentials. Both are unknown.

Evidently there exists a minimum wage so low that it would make no difference, good or bad. It would have to be very low indeed. A minimum wage of £3.35 an hour, for example, would directly affect 32 per cent of part-time women and 40 per cent of part-time men, though only 16 per cent of full-time women and 8 per cent of full-time men. A minimum wage of £4.15 an hour (60 per cent of the median male wage) would affect 55 per cent of part-time women and 54 per cent of part-time men. Could the unspoken purpose of these proposals be to curtail part-time work, most of which is done by women, in order to boost full-time employment opportunities for men?

Will Labour raise taxes? Probably yes. Will it increase the underlying rate of growth and lower the underlying rate of unemployment? Probably not. Could the economy perform in line with its long-run trend rate of growth under Labour? Yes. But what Mr Blair must hope is that there is enough slack in the economy to give a good period of above-trend growth. It just might be there. It would be rash to assume it.

How the Treasury forecast the fiscal deficit



Source: Treasury

Personal View • Frank Vogl

Customers come last in global air links

Airline alliances work against the interests of passengers – and of their safety

I had booked my flight from Brussels to Boston on Delta Airlines and my ticket said Delta as well. But as I walked down the boarding ramp, I knew something was wrong: the stewardesses were not in Delta uniform. The logo everywhere was that of Sabena, the Belgian airline that is in an alliance with Delta, Austrian Airlines and Swissair.

It was an old European Airbus, not a spanking new Boeing 777 of the kind United Airlines used to fly me to Europe. The legroom in business class (my round-trip ticket to Europe cost more than $3,000) was so sparse it was a pleasure to fly onwards to my final destination from Boston in the comfort of USAir economy class.

The steak that was served seemed as old as the aircraft. There were none of the individual video sets that I might have enjoyed in British Airways business class, or the sleeper seats provided by Continental.

This dispiriting experience was yet another example of the consequences of airline alliances, a sign that airlines often put the short-term interests of their shareholders ahead of those of their customers.

Once PanAm flight 1 could jet you around the globe. But today no airline has global coverage to all the destinations that people want to go to in ever greater numbers.

To be competitive, however, airlines have to suggest to consumers that they offer global coverage. As a result, they are forging ever-deeper strategic alliances with each other – such as those between Delta and its new European buddies, British Airways and American Airlines, or Northwest Airlines and KLM, the Dutch carrier.

It is all part of an obsession among airline bosses over market share – they all want more of it. Competition is exacting and it might be argued that there are too many companies now flying the "friendly skies". No airline believes it has enough of the global market and all fear they will be losers unless they swiftly secure alliances.

For the customer, this can mean unpleasant surprises of the sort I experienced on my return flight from Europe. But it also raises questions about safety standards, particularly in the wake of the Valujet crash in Florida.

The US Congress is about to hold hearings into airline safety, and experts are going on US television and radio programmes to warn people to fly only on airlines that the authorities have clearly declared as safe. But, what can passengers do if they buy a Northwest Airlines ticket and discover they are flying on a KLM aircraft that is not subject to Federal Aviation Authority controls?

The Dutch authorities that regulate KLM may be better regulators than the Americans. But can the same be said for most other national authorities which licence the airlines increasingly joining the widening nets of global airline alliances?

The answer is almost certainly no. The reality is that in the race for global market share to fend off potential competitors and secure the tremendous profits that globalisation can bring, the airlines are willing to take risks with customer standards.

The airlines are willing to take risks with customer standards in the race for global market share to fend off potential competitors

They are willing to surprise passengers about the airline they will travel on, the equipment they will fly on, the quality of in-flight service they will receive and the standard of ground safety/maintenance service that the airplanes may be subject to.

To overcome this problem the world's leading and best regulated airlines would have to insist that their partners all met very high international standards. The tests would range from the basics of safety to the extremes of business-class and first-class luxury. Meeting such tests, at least in the medium term, would probably be seen as too expensive for the airlines in a hurry to offer the best global networks of alliance-driven international routes.

The competitive pressures of globalisation are mounting in almost all business sectors, forcing managements to consider trade-offs. Do they place shareholder value above customer value? Do they assign lower priority to concern for their employees as they cut costs? And do they try to do an end-run around safety regulations just to make a few additional dollars?

To place shareholders above all other interests is a short-term strategy that can only end badly. Delta, by tricking me into a Sabena flight, is no longer my airline of preference and I have more choices today than ever.

If the partner of a leading world airline crashes, the damage to the latter's reputation will be enormous – and the costs to it very high.

The strategists of new global alliances, in all business sectors, should start taking greater account of such considerations.

The author is president of Vogl Communications of Washington DC, a strategic management consultancy.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Remember EU's fourth freedom

From Mr David Martin MEP.

Sir, In his Personal View (July 2), Onno Ruding rightly argues that the European Union has "... in most respects realised the goal of the single internal market – with its attendant free movement of goods, services and capital – as envisioned by the Maastricht Treaty in 1992".

I do not know if it was intentional, but it is pertinent that the former finance minister of the Netherlands missed out the fourth of the four famous freedoms – the freedom of movement for labour, or citizens, within the single internal market.

The single market will never work properly unless we have the freedom of movement for labour to work within the European Union. The European Court of Justice last week came to the aid of teachers, musicians and other European Union citizens trying to get work within the Union.

In three judgments it ruled that Belgium, Greece and Luxembourg broke European laws by preventing non-nationals from holding public sector jobs in fields ranging from education to post and telecommunications.

Although the European Union's founding treaties guarantee free movement of workers, they also provide an exemption for public sector workers. However, recent rulings of the Court of Justice have meant only jobs involved in making public policy or safeguarding the interests of the state can be reserved for nationals. Teachers, people working in public utilities or healthcare and transport should not be included.

Freedom of movement for workers must be a basic right under European Union law and is just as important as freedom of movement for goods, services and capital. Last week's ruling is a significant step towards freedom for EU citizens to work in other member states.

David Martin,
vice-president,
European parliament,
4 Lothian Street,
Dalkeith, Midlothian, UK

Sterling exit

From Mr Louis de la Nouille.

Sir, Philip Stephens ("A shadow of itself", July 5) refers to "sterling's ejection" from the EU exchange rate mechanism. In this he is mistaken: sterling was never ejected from the ERM.

Should he have any doubts on this, he would do well to refer to his own recently published book *Politics and the pound*, where (on page 251) he gives a brief, but presumably accurate, account of the meeting where "the decision was taken to pull out of the ERM". The correct description of what happened, which should also clear up the confusion in his mind, would seem to be auto-ejection.

Louis de la Nouille,
12 Rue du Faubourg
Poissonnière,
Paris 75010, France

Time to end outdated farce

From Mr Charles Wyatt.

Sir, Well played, Joe Rogaly. I read his pleas for the destruction of the UK's unpleasant and inefficient Ministry of Agriculture Fisheries and Food ("End of the line for Maff", July 6/7) while watching Michael Atherton score his century – and I don't know which I enjoyed more.

For longer than most can remember, Maff has formed the third corner of a cosy triangle with factory farmers and agrochemical manufacturers to the detriment of the countryside and the housewife's purse.

Ministers have come and gone without trace. Few had any knowledge of farming when coming to office, even fewer knew much more by the time they left, and virtually none exerted any significant controls over their officials.

Maff, as run by these unelected officials, now seems to be answerable to nobody. Having struck a mortal blow to our fishing industry, it is bringing our beef industry to its knees. While it ponders its next target it attempts to justify its existence with more mad schemes. Blood tests on sheep for diseases not recorded on these shores for many a year is one of the latest. About as sensible as testing all dogs for rabies, or paying farmers to grow weeds.

Let's hope the FT forms up behind Mr Rogaly to campaign for an end to this outdated farce.

Charles Wyatt,
Hurst House,
Wittersham,
Kent TN30 7EL,
UK

The reality of democracy for Russians

From Dr Marek Laskiewicz.

Sir, The key point about the Russian presidential election is that it shows the high support for communists. This confirms what I have consistently said since June 1991 – unlike all the experts, who blow with the wind – and what I have explained in *Russia and World War III* (ISBN 1871771 02 1), namely that war (possibly nuclear) may still occur. For Russia may react against an unsuccessful capitalist democracy and may support a revanchist neo-communist dictator.

So, while the Anglo-Saxons believe democracy is wonderful, what the Russians see is disorder, territorial disintegration, and poverty, albeit partly masked by aid. And while the world believes that perestroika was a "liberal" reform, it was in fact a failed "hardline communist" one.

The experts were and are wrong. No-one should be complacent.

Marek Laskiewicz,
39 Queen Elizabeth's Walk,
London N16 5UG, UK

No need for new status

From Mr Jack Wigglesworth.

Sir, Another problem: another instant solution. But the challenges facing member-run exchanges – such as the London Stock Exchange and the London International Financial Futures and Options Exchange (Liffe) – would not be removed by turning us into plcs with a broader range of shareholders (Lex, July 1).

On the contrary, an exchange can only be successful if it serves the investing public. An exchange's member firms can only make profits if they meet those same needs. So giving control to members allows swift responsiveness to the needs of the market. Being a plc with a different set of shareholders and interests could only be a distraction. Control by members is also more consistent with our regulatory role under the Financial Services Act 1986 – a role which we take extremely seriously and where direct member input is vital.

Liffe has experienced more than 40 per cent growth a year since 1982 to become the largest exchange of its kind outside Chicago – proof indeed of the ability of member-run exchanges to act commercially and exploit market opportunities.

Jack Wigglesworth,
chairman,
London International
Financial Futures and Options
Exchange,
Cannon Bridge,
London EC4R 3XX, UK

All in a name

From Ms Fiona M. Schneider.

Sir, Having lived in Germany for seven years, it now looks as if the difficulties with my forename are at last set to end ("Deutsche Bank introduces Fiona", July 4). Regrettably, I fear, as I would rather be known as Viola, Flora or Veeona than Frankfurt Inter Bank Overnight Average.

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FINANCIAL TIMES
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Tuesday July 9 1996

The state and the volunteers

Britain has a long and laudable tradition of voluntary effort. In culture and practice it is midway between the US and continental western Europe: the state plays a significant social role, but has not crowded out charities and volunteers far from it. More than 20m people do voluntary work, everything from scout clubs to lifeboat stations, and the charitable realm extends to health and education services regarded as core governmental responsibilities elsewhere.

In typically British fashion the complex policy issues raised by the voluntary sector have been left largely to custom, practice, a few quangos and the odd government steer. Recent steers have been significant, notably the creation of the National Lottery, providing massive semi-public funding for sports and welfare charities.

Yesterday's report of the commission on the future of the voluntary sector is therefore timely. Its recommendations are radical, but mostly go with the grain of developments in the voluntary sector and are to be welcomed. The three central issues are the legal framework for charities; the definition of activities meriting charitable status; and the management structures of voluntary organisations.

On the first two, the commission proposes to replace the arcane legal framework with a "single, clear and flexible" legal category and a set of associated reforms. This would tackle obvious anomalies, notably the inadequate official oversight provided for the charitable sector. The commission rightly calls for the charity commissioners – a regulatory and judicial body – to be supplemented by a Voluntary Sector Commissioner to keep charity law under review and a new appeal tribunal empowered to review the commissioners' judicial decisions.

The commission is also right to highlight the unsatisfactory tax status of charities. Tax exemption should mean just that, yet the current rules result in many charities paying large VAT and local rates bills. On organisation, there is a strong case for allowing charities to establish themselves on a Companies Act model, as suggested by the commission. Because charities depend on volunteers and donations, that is no reason for them to be managed amateurishly.

More problematic – but critical – is the definition of charitable status. Here the commission is disappointingly cautious. It recommends "a review" to establish "a mechanism to ensure the class of organisations able to claim charitable status keeps up with social change".

Alas, new mechanisms will not resolve the controversial issues at stake. Why should Eton College but not sports clubs be granted charitable status? Why Oxfam but not Amnesty International? Parliament needs to debate from first principles the desirable "public goods" it wishes charities to advance. It cannot continue leaving such important, if vexed, questions to a remote quango and 19th century law.

No cure for Aids

This week's international Aids conference in Vancouver is more optimistic in tone than any such occasion since the mid-1980s. Recent research has given hope that drug combinations will be able to keep symptoms of the disease under control almost indefinitely.

But the new optimism must not obscure the fact that, on a global basis, Aids remains one of the world's most serious public health issues. HIV, the virus that causes Aids, has already killed several million people – mainly in sub-Saharan Africa – and the UN programme on HIV/Aids says 22m more are infected.

Even in industrialised countries where most victims have been homosexual men and illegal drug users, complacency is not justified. Contrary to the dire predictions of some experts 10 years ago, no Aids epidemic has yet swept through the heterosexual population of the western world – but epidemiologists warn that the spread of HIV infection via unprotected sexual intercourse is still gathering momentum.

For the poorer regions of Africa, Asia and Latin America, where there is already a devastating Aids epidemic, the encouraging news that a triple cocktail of HIV drugs seems to stop the virus replicating is almost irrelevant. The cost of such treatment – up to $13,000 a year for each patient – will be a daunting burden for healthcare systems in the west; in the third world it is unthinkable.

The subsidy required to pay for large-scale treatment of Aids in the third world with western drugs would run to many billions of dollars a year – and would therefore be prohibitive, whether it came from governments or pharmaceutical companies. In any case, administration of the new drugs requires a sophisticated medical infrastructure that is simply not present in many regions.

Eventually, some time in the next century, the whole world will benefit directly from the scientific progress now being made in western laboratories. For the time being, however, efforts to halt the global spread of Aids will have to remain low-tech and low-cost.

That means more vigorous promotion of preventive measures such as the use of condoms. Evidence reported in Vancouver shows that safe-sex messages can get through. In Thailand, for example, the number of men visiting prostitutes has fallen by half and HIV infections are running at one quarter of the 1990 rate.

At the same time, the west must give more generous support to programmes for treating the infections that accompany Aids with cheap off-patent drugs. In particular, tuberculosis and Aids go hand in hand, and nothing would do more to reduce Aids mortality over the next five years than a successful campaign to reduce tuberculosis deaths through properly administered antibiotics.

OAU dilemma

Two years after genocide in Rwanda, neighbouring Burundi is falling into a similar nightmare of ethnically motivated slaughter. In 1994, the international community was blamed for a belated response that failed to avert the Rwandan killings. Having intervened, the outside world could offer no long-term solution. This time, the western powers are staying on the sidelines in Burundi, refusing to commit troops to a country where they have little at stake.

The burden of responsibility for bringing peace therefore rests on the shoulders of the African leaders currently attending the Organisation of African Unity summit in Cameroon. But they are in a dilemma. If Africa fails to tackle the crisis in Burundi, prospects for ending conflicts elsewhere in Africa are bleak indeed. But an ill-timed, poorly supported and inadequately prepared intervention could do more harm than good, conceivably precipitating the anarchy it is trying to avert, and even turning a national conflict into a regional war.

The situations in Rwanda and Burundi are confusingly comparable, yet different. In the former, nearly 1m Tutsis were systematically killed by a Hutu majority determined not to share power with the Tutsi minority. In Burundi, the Tutsi minority is in control of the army and civil service and refuses to share power with the Hutu majority.

Once again, the world is confronted with a tragedy it seems incapable of averting. The death toll in Burundi is running at 1,000 a month. The flood of refugees from both countries threatens to destabilise the region. After many months of negotiations led by former Tanzanian president Julius Nyerere, the basis of a peace plan has taken shape. Regional leaders have proposed an African force comprising troops from Uganda, Tanzania and Ethiopia which would try to stop the killings.

The response from both Tutsi government and Hutu rebels since then leaves it far from clear that such a force would be accepted. Instead of keeping the peace between the two sides, it might have to be peace-making, or peace-enforcing. That would require a much larger number of troops, considerable financial resources and a long-term commitment.

There is some suspicion that the threat of international intervention is merely a ploy to force both sides to negotiate. The danger is that will not happen, and the OAU bluff will be called. If this African initiative is to succeed, it must be clear not only that both sides in Burundi welcome it. It must also win the support of President Mobutu Sese Seko of Zaire, where most Hutu guerrillas are based. Most important, its objectives must be clearly defined.

Only if African leaders at the OAU summit present a more convincing plan should the scheme go ahead.

A firm hand on democracy

Algeria faces an uphill struggle in its latest attempt to reshape its political system after the violence of recent years, writes Roula Khalaf

When an Algerian opposition leader met President Liamine Zeroual recently and proposed that Algeria hold a "peace" conference, the president dismissed the idea. "They don't like to hear us speak of peace," explains the opposition leader, "because it assumes that what we have is a war."

Bolstered by his victory in presidential elections in November and confident that Islamist militants no longer pose a threat to his regime, Mr Zeroual has decided it is time for Algeria to move on from the crisis caused by the fighting of the past four years.

Pronouncing that the violence has become "residual", Mr Zeroual is attempting to reshape Algerian politics into a form that appears democratic while ensuring firm state control and continuing to exclude his Islamist opponents from the political process.

Algeria surprised the Arab world in 1989 with its decision to move from one-party rule to western-style multi-party democracy. More than 60 parties were established, an independent press flourished and economic liberalism began to take root. But it was a newly-formed Islamic party, the Islamic Salvation Front (FIS), that mesmerised Algerians by capitalising on their social and economic plight and on their disgust with the ruling National Liberation Front.

When the FIS won the first round of general elections in December 1991 and looked as though it would control the national assembly, the army seized control of the country to put an end to the democratic experiment.

The Islamists then took up arms, sinking Algeria into a state of chaos and raising fears in western capitals of a radical Islamist takeover which would spill over into the rest of north Africa and send hordes of immigrants knocking on the doors of Europe. More than 40,000 people have been killed in the conflict in a country that is one of Europe's leading suppliers of natural gas.

Now Mr Zeroual, a former army general, has declared that the country is ready for a fresh start, this time with much stricter rules of play. After a first round of talks with politicians and community leaders in April, he announced that Algeria would hold general and local elections in 1997. Before then, there would be a referendum on amending the Algerian constitution.

Voters would be asked to approve proposals to prevent parties from using Islam to further their political ends and to set up a second chamber of parliament, some of whose members would be appointed rather than elected. The introduction of a system of proportional representation would also minimise the risks of a single party winning control of the national assembly.

Mr Zeroual has called for a second "multilateral" dialogue with legal opposition parties on Monday, which the government says would be followed by a national conference on the future of the country. But even the Algerian regime's moderate opponents are critical of Mr Zeroual's approach. They say he is wrong to assume that the violence has largely been dealt with.

Information is tightly controlled, but there are still regular bomb explosions and attacks on civilians and members of the security forces. Incidents such as the killing of seven French monks in the spring have highlighted the dangers of life in Algeria.

Nor have the grievances that won the Islamic Salvation Front such widespread support in 1991 gone away. With 60 per cent of Algerians aged under 25 and with the population growing at more than 2 per cent a year, the real challenge facing Algeria is found on every street corner.

They call them the "haitists" – the people who lean against city walls (*hait*). These are the disillusioned youths brought up in a failed education system and ruled for decades by a corrupt government that squandered the country's resources. Unemployment among the young is estimated at 65 per cent.

In an economy still controlled by a bloated state sector, hopes for revival rest on foreign investment, but potential investors are still being frightened away by the violence. Recent multi-billion dollar contracts with foreign companies to exploit Algeria's oil and gas reserves in the desert south (where projects are largely safe from Islamist attacks) provide funds for the government to pay its bills but create little employment.

Several opposition leaders say that the best way to reduce the violence is to include at least some FIS leaders in the political process. But discussions between the FIS and the government have repeatedly collapsed in the past four years, and the government has now decided to exclude them completely.

The regime has succeeded in splintering the FIS leadership, by jailing some leaders and forbidding others to speak in public. The party's reputation has also been damaged by the reluctance of its leaders to condemn acts of terror. Ordinary people have been caught between the Islamist violence and brutal government repression.

The Islamic Salvation Army, the armed wing of the FIS, has been fighting the security forces on one front and the more radical Armed Islamic Group on the other.

In a sign of a change in strategy, FIS leaders in exile have made conciliatory statements towards the regime in recent months and have condemned specific terrorist acts targetting civilians. Released FIS leaders in Algiers, meanwhile, have been telling other parties that they are ready to try convincing armed groups to give up their military struggle.

But the Algerian government says the FIS's change of heart is too late for the organisation to be included in negotiations. Officials say former FIS supporters should find a voice within other legal parties with Islamist leanings, such as Hamas, the party whose candidate in November's presidential elections won 25 per cent of the vote.

If Mr Zeroual's proposals on removing Islam from politics are adopted, Hamas will simply strip any mention of Islam from its name and adjust its political programmes to conform to the new rules.

Mr Zeroual claims that he wants the moderate Islamists and other parties to act as an effective alternative to the FIS and, in time, to convince the young men who took up arms of the futility of their struggle. But this will require the president – and the army which still wields the real power behind the scenes – to abandon their monopoly of political power. Otherwise the opposition parties will be seen merely as decorations that help to legitimise a totalitarian regime.

Mr Ahmed Attaf, Algeria's foreign minister, insists that the aim of Mr Zeroual's initiatives is to strengthen the democratic process, but many Algerians remain sceptical about the president's intentions.

Some government actions sit oddly with professed democratic aims. For example, the continued muzzling of the independent press – the latest example of which was last week's suspension of French-language daily La Tribune – contributes to suspicion.

Opposition parties will have the chance to test Mr Zeroual's true intentions in the talks starting next week. As requested by Mr Zeroual, the parties have provided written comments on his proposals on amending the constitution.

But they admit that Mr Zeroual is holding the strongest cards. "We are facing a dilemma," says one opposition leader. "To take part in this process is to contribute to our own suicide, and not taking part will also suffocate us."

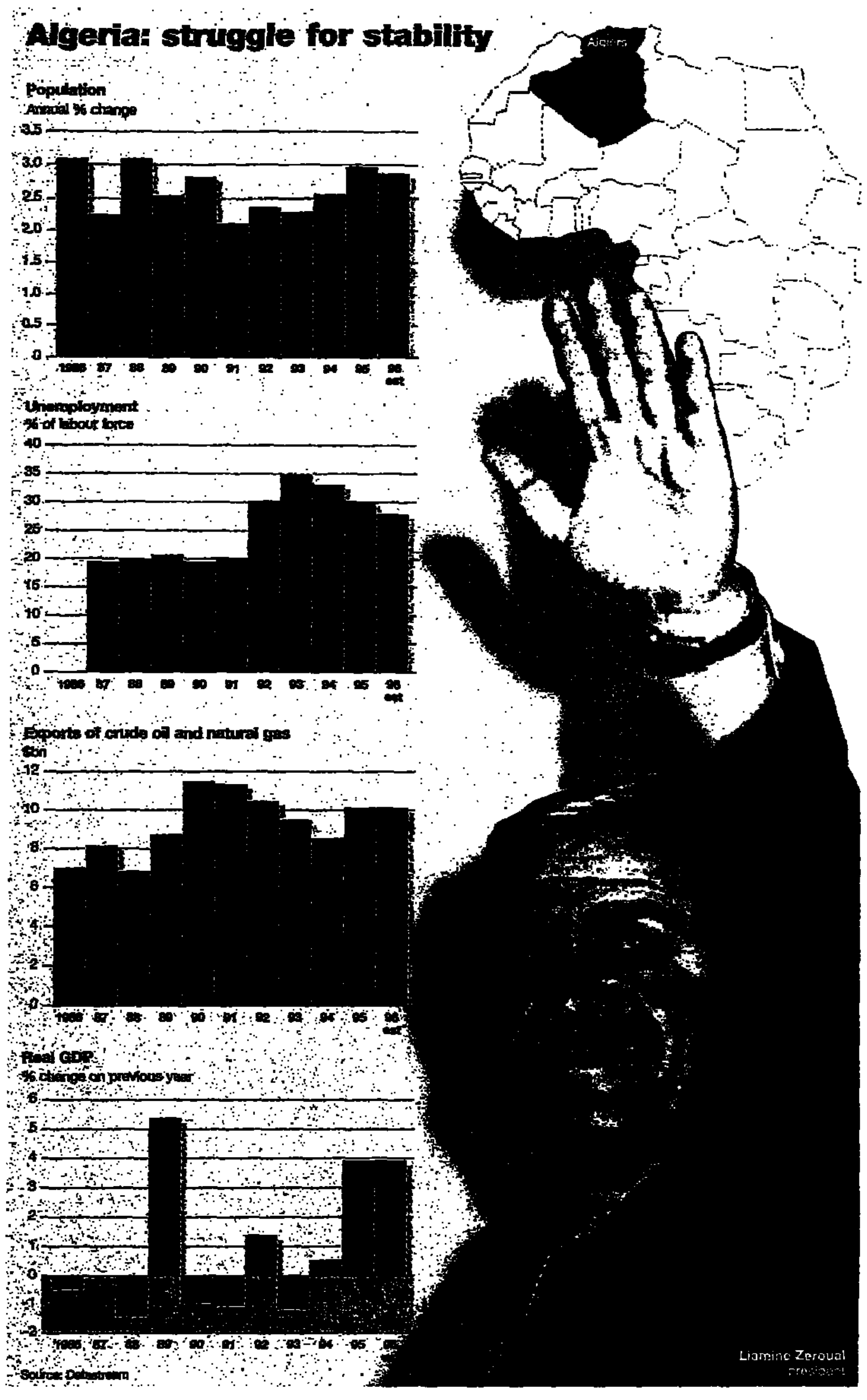
Mr Zeroual will do all in his power to create an institutional framework that gives his political allies – including at least part of the National Liberation Front – an advantage in the general elections, especially since he has no party of his own.

But if Mr Zeroual has any hope of one day returning Algeria to stability, diplomats say, he must also allow the opposition enough room to manoeuvre without government interference.

"In a society that is violently distrustful, in which memories of blood are too fresh, the divisions are too great to allow for any agreement among all sides that is based on trust," says a Western diplomat. "This is why Mr Zeroual has to accept enough changes in his proposals so that opposition parties are given enough guarantees to take part in a process without having to trust the authorities."

Algeria has passed the point where it can forever repress its Islamic militants with the sort of authoritarian (but internationally tolerated) system of government found in Egypt and Tunisia.

The violence has touched too many lives and the culture of confrontation runs too deep. If the regime tries to take the route of repression, a former government official says, "the only question then becomes, 'When will it all explode again?'".



· O B S E R V E R ·

Murdoch's alien market

■ One of the great advantages of being a multi-media mogul is the creative opportunity to plug different parts of your empire into one another.

Thus eagle-eyed American cinema-goers, lapping up the new summer blockbuster, Independence Day, will have noticed the ubiquity of Rupert Murdoch.

Twentieth Century Fox, his company, produced the movie. Whenever it features TV news clips of the alien menace, the newscasters are not from CNN, ABC, CBS or NBC, the major US networks, but from Sky Television, virtually unknown in the US, or, for local news, Fox, both Murdoch subsidiaries.

The truly suspicious might even see the conservative Murdoch political agenda at work.

Although the party affiliation of the heroic US president who takes to the skies to lead the successful aerial counter-attack against the alien ships is never disclosed, he is assumed to be a Republican, if for no other reason than that one of the black stars in the film confesses to having voted for the other candidate.

But Murdoch left the aliens themselves severely alone, either because they were too tight, or perhaps because they were telepathic and therefore had no need for the mass media. Murdoch, no friend of Washington, even when it is run by Republicans, might also be disappointed to hear that the DC audiences did not cheer when the White House and Congress were incinerated, as reportedly has happened elsewhere in the country.

Outgunned

■ Volker Rühe's heart must have missed a beat recently when Chancellor Helmut Kohl ruffled his defence minister's hair before a cabinet meeting.

It was apparently designed to cheer up poor Volker, who has been having a bad time of it recently because his defence budget is being sniped at by Theo Waigel, Bonn's hard-nosed finance minister who is looking for more savings.

But Kohl rarely dispenses affection so publicly – and yesterday it became apparent that nothing had really changed when Rühe's defence budget received another mauling from Waigel.

In order to make the humiliation a touch more palatable, Kohl has, however, assured his defence minister that his budget will rise gradually from next year's DM46.5bn to DM48.5bn in 2000.

That such assurances are worth less than the paper they are written on – if indeed they have been put into writing at all – must be abundantly clear to Rühe.

After all, back in the halcyon days of November 1994, just after Kohl had won his fourth election, he told Rühe that he would have DM48.5bn to spend every year on the Bundeswehr, together with fancy weapons projects designed to cement the famed Franco-German axis.

Funny, then, that Rühe should have just DM46.5bn to spend next year.

Hub love?

■ It must be the seven-year itch – and then some. KLM last week made renewed overtures to Northwest Airlines aimed at ending a row over who is boss of the ménage first created in 1989.

But as the Dutch suitor had already called in the lawyers, the response from its Midwestern belle was not much more than a shrug of the shoulders.

More seriously, the American has taken to casting aspersions on the home background of the persistent European. Passengers bound for Amsterdam are being handed Northwest leaflets which paint the city in a distinctly unflattering light.

"Keep handbags close to the body. Avoid photographing the red-light district. Drugs are widely available," it intones, advising women "against walking around the red-light district day or night, even if accompanied."

Even Northwest admits that last exhortation is "worded more strongly than it needs to be".

The leaflet is being handed on a test basis to those departing from its squeaky-clean Minneapolis-St Paul hub on flights it code-shares with KLM.

"I dare say if we did one for New York it would probably be quite a bit longer," acknowledges Northwest. But the fact that KLM is then referred to as the "erstwhile partner" kinda says it all.

Light relief

■ If only all German visitors to the UK could be briefed by Barbara Schmitz, a 10-year habituée of London on behalf of publishing house Burda.

In an article written for an internal newsletter a couple of years ago – which is still regarded as essential reading for staff due to land in Britain – Schmitz advises learning four good short jokes by heart, "like a mantra".

The material should not be anti-women, anti-foreigner or anti-British. A joke that makes fun of the Germans, however, will go down a treat.

"In their heart of hearts, Britons believe the old cliché that Germans have absolutely no sense of humour and only seldom laugh. It is worth overcoming this prejudice."

Ach so. The British joke is no laughing matter?

The Financial Times

100 years ago

New German Cable Company
Cologne, 8th July. A new cable company has just been formed here, under the title of the Deutsche Seetelegraphen Gesellschaft (German Submarine Cable Company). The primary object of the company is to lay a cable between Germany and Spain, and eventually to extend it to the United States. The present share capital amounts to 3,560,000 marks. Reuter.

50 years ago

Bank to be Nationalised
"The Netherlands Bank will be nationalised," Dr Louis J.M. Beel, the new Dutch Premier, told the Lower Chamber of the Dutch Parliament yesterday in his policy statement. Certain Dutch industries would also be nationalised if investigations showed this to be desirable. Dr Beel added, however, that the Government took the view that Government control would gradually have to give place to private enterprise and bodies vested with special power.

Some Clients Leave
The annual report of the recently nationalised Bank of New Zealand stated that because of considerable opposition to nationalisation throughout the country, it was inevitable that the bank would lose a certain amount of business.

FINANCIAL TIMES
Tuesday July 9 1996

US carmaker seeks to take on small-car market

GM names six dealers to sell Saturn in Japan

By Haig Simonian in London

Saturn, the successful US carmaker established by General Motors in the 1980s to meet the challenge of low-cost Asian competition, turned the tables on its foreign rivals yesterday by appointing its first six distributors in Japan.

The move marks the culmination of a strategy to develop Saturn sales abroad and demonstrate that US-built small vehicles can compete on price and quality with Japanese products in their home market.

The Saturn models will be the first right-hand-drive GM cars sold in Japan. GM said they would be available in 10 to 15 showrooms when sales start early next year, and it hoped to recruit more dealers to increase its network by the launch date.

"We would hope to have between 15 and 20 stores operating during the first half of 1997," said Mr Don Hudler, Saturn's president.

Saturn's Japanese subsidiary said it was in talks with more than 30 potential companies and expected several to sign before the end of this year.

"We are convinced the high quality of Saturn cars, combined with friendly customer treatment and service at our Saturn retailers, will make a difference even for very discerning Japanese consumers," said Mr Keith Wicks, general director of Saturn Japan.

Significantly, all but one of its first six dealer groups are independent companies. Only one, Nagoya Daihatsu, is affiliated with a Japanese carmaker, which holds a 30 per cent stake. Another, Yanase, is a long-standing distributor of other GM vehicles in Japan.

This year Toyota started selling GM's Cavalier sedan under its own name but sales have been disappointing with only 5,154 registrations in the first six months against a 1996 target of 20,000 units.

The naming of the dealers follows a long-running campaign by Saturn to penetrate the Japanese market. It started exporting to Taiwan, its only foreign market apart from Canada, in 1993 to develop its logistics and gain experience in selling to east Asia.

Mr Hudler said the company believed the time was now right to enter Japan, as consumer tastes were changing and motorists were looking for more choice.

Sales of foreign cars in Japan have risen sharply in recent months. However, US exports have generally failed to match the strong growth rates registered by European carmakers.

Although GM's exports soared by almost 150 per cent to 10,633 units in the first six months of this year, compared with the same period last year, Ford saw an increase of just 12.6 per cent to 8,125 for the period, while Chrysler sales declined by 8.2 per cent to 6,991. These mixed fortunes have cast strong doubts on whether the US Big Three will manage to meet their targets of exporting more than 100,000 vehicles each to Japan by the end of the century.

French defence ministry admits to wiretaps

By David Owen in Paris

A new political scandal erupted in France yesterday after the defence ministry admitted ordering wiretaps on two senior aides to Mr François Léotard, the former defence minister and current president of the UDF, the junior partner in France's ruling coalition.

In a move that threatened to put relations in the coalition under severe strain, the ministry said the "interceptions" were for unspecified "national security" reasons.

It said the first tap began on July 11 1995 - about two months after the Gaullist Mr Jacques Chirac won the presidency. Both taps ended in October.

The admission followed reports in *Le Monde*, the left-leaning daily newspaper, that the telephones of several members of Mr Léotard's entourage were tapped by the Direction Générale de la Sécurité Extérieure, France's overseas espionage service.

The newspaper identified three of the officials who were subject to wiretaps. It speculated that the operation might have been linked to suspicions that money from arms sales to Saudi Arabia could have been channelled to supporters of Mr Edouard Balladur, the former prime minister.

Mr Balladur campaigned unsuccessfully for the presidency in the election won by Mr Chirac. Mr Léotard was a senior organiser of Mr Balladur's campaign. He succeeded Mr Valéry Giscard d'Estaing, the former president, as UDF head in April, fending off a challenge from Mr Alain Madelin, the former finance minister.

Mr Léotard last night demanded a public explanation for the wiretaps from Mr Alain Juppé, the French prime minister. He described the move as "as astonishing as it is unjust for military men or senior civil servants who have served their country with honour".

He called on the prime minister to acknowledge that "no reproach or fault with a bearing on national security had been established against these people" and that no political reasons could be used to justify "practices that do no honour to our democracy".

Mr Juppé's office defended the wiretappings but refused to explain why they were carried out. It said the action had been legal, strictly for national security reasons and approved by an independent national commission.

Yesterday's disclosures gave a fresh twist to a series of scandals over alleged illegal political funding, including of Mr Chirac's Gaullist RPR party.

Mr Chirac was yesterday in Qatar, having visited Saudi Arabia at the weekend.

THE LEX COLUMN

Reaching for the Sky

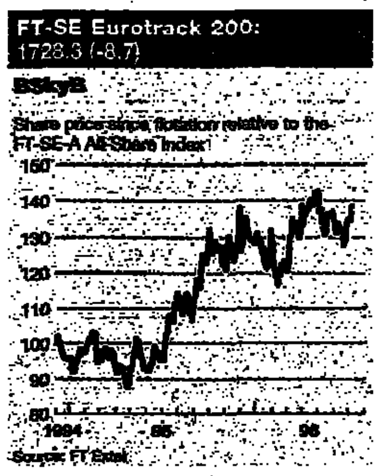
By finally linking up with Bavarian media mogul Mr Leo Kirch, Mr Rupert Murdoch's BSkyB has won an important prize: together, the two men look formidably positioned for future dominance of Germany's television screens. For a start, Mr Kirch's plans for digital pay-TV in Germany are already well-advanced, with 17 channels due to be launched later this month. His only rival – a bedraggled alliance of Bertelsmann, Canal Plus and Havas – is well behind. For another, as a partner the buccaneering Mr Kirch looks much better suited to Mr Murdoch's style than stodgy Bertelsmann.

Moreover, Mr Murdoch seems to have cut a remarkable deal. BSkyB will get a 49 per cent equity stake in the Kirch venture, in marked contrast to Kirch's recent deal with Viacom in which no equity was exchanged. And it is having to pay nothing for the privilege.

Of course, BSkyB will have to bear its share of the venture's start-up losses. But even if this makes a nasty dent in BSkyB's juicy cashflows over the next few years, the long-term prospects look enticing. Germany is, after all, potentially the largest pay-TV market in Europe.

The big question is whether Mr Kirch and Mr Murdoch are likely to face any competition at all. Bertelsmann is unlikely to give up altogether. But its alliance still looks in deep disarray; yesterday's wistful statement that Bertelsmann "hopes for a return to greater mutual confidence" with its partner Canal Plus is hardly a promising sign. Of course, there is no guarantee that the Murdoch/Kirch partnership will not prove similarly flimsy. But Bertelsmann would be unwise to count on it.

FT-SE Eurotrack 200: 1728.3 (-8.7)



Airbus

Setting up Airbus as a proper company is a big step towards getting Europe's sluggish four-nation consortium airborne. In the face of increasing competition from Boeing and McDonnell Douglas of the US, Airbus desperately needs to improve its competitiveness. Mr Jean Pierson, its managing director, has publicly stated the need to cut costs by 20 per cent over the next few years. Competitive tendering and central buying of parts – impossible under the current legal structure – would get him a long way towards his goal.

Agreeing the principle is one thing. Thrashing out the details will be much more difficult – which is why it may take until 1999. The most straightforward solution would be to hand Airbus the manufacturing facilities of its four current shareholders. The snag is that British Aerospace's factories are efficient and profitable, whereas those of Aérospatiale and Daimler-Benz Aerospace are not.

A proper valuation would therefore leave BAe with a much bigger stake in the new company than its current 20 per cent. That would be difficult for the Germans and French to swallow politically.

A more elegant solution might be to construct Airbus as a sophisticated design house. It could then contract out work to the lowest-cost operators, be they shareholders or not. In the longer term, Asian manufacturers probably have an unbeatable cost advantage over Europeans, so it may make sense to bring them into new projects, like the 550-seat "super jumbo". At the very least, a more independent Airbus should be able to think such commercially-minded thoughts.

Grand Metropolitan

Grand Metropolitan's emergence as a potential bid victim, given the apparent interest of its largest competitor Guinness, is ironic. Under its trigger-happy former chairman Lord Sheppard, GrandMet would have been tipped as far more likely to bid for Guinness than vice versa.

Indeed, GrandMet would look better placed to gain the upper-hand in any contest. It has a better record on takeovers; it has the advantage of a fast-growing food business; it is further ahead in restructuring its spirits business; and it could achieve greater cost savings as a percentage of the cost of the bid.

Nonetheless, investors should not take the leaked report on a GrandMet bid as evidence that takeover activity is coming to the sector. The report may demonstrate possible cost savings from spirits mergers, but these savings are insufficient to cover any bid premiums. This applies even to Allied Domecq, the weakling of the big four global spirits groups.

Of course, it is possible that Allied's new chairman could broach the subject of a friendly merger, but the attitude of its competitors seems to be that it is more profitable to beat it than eat it. They have been proven right so far.

Corporate activity may come to the sector, but it is likely to be more subdued. Joint venture distribution deals are one way to extract some merger benefits without the merger. GrandMet is under little pressure to pursue such deals, as it starts to reap the benefits of restructuring and increased marketing expenditure. Guinness is clearly somewhat hungrier.

Tomkins

Tomkins may no longer be fashionable, but it is never less than solid. Earnings growth of 7 per cent in a year when an extended US winter knocked £200m off lawnmower sales is no mean feat. Healthy cash generation underpinned a 15 per cent dividend increase at a time when Hanson and BTR are considering cuts.

Looking forward, the group has Gates to get its teeth into. As with most family-run companies, there is huge scope to improve returns: Gates' operating margin was only 4.3 per cent last year. Tomkins also believes it can extract £250m of working capital. At Ranks Hovis McDougall, bought in 1992, reorganisation costing £90m and subsequent investment have been financed with its own cash. Moreover, Gates adds a slice of growth to Tomkins' otherwise mature portfolio.

Compound turnover growth at Gates has been more than 8 per cent for the past three years and there are opportunities to sell more of its rubber belts and hoses in Asia and Latin America. In the US, the group should take market share as carmakers convert from metal belts to rubber ones.

The shares deserve a market average rating, which suggests a 10 per cent improvement over the current price. But the management has made clear that a sharper focus, which could include disposals and a share buy back, remains low on the agenda. It is difficult to see the shares fizzing while Tomkins remains an unrepentant conglomerate.

Additional Lex comment on Hanson, Page 20

Bonn plans 2.5% cuts

Continued from Page 1

lin. However, the cost of servicing the federal debt is also set to rise to DM89.2bn from DM86bn.

Mr Waigel's budget will be set in the context of slow real growth of 0.75 per cent this year with a pick up expected in the second half. Growth of between 2 and 2.5 per cent is expected in succeeding years.

The DM56.5bn of net borrowing projected for 1997 will be about DM7bn higher than anticipated a year ago. According to the draft, the federal borrowing requirement will not fall below DM50bn until 2000, when it should total DM48.9bn.

Airbus to be one company

Continued from Page 1

the drawback to the existing structure is the way partner companies are given manufacturing work regardless of their efficiency or production costs. Aérospatiale and Dasa each own 37.9 per cent, BAe has 20 per cent and Casa 4.2 per cent.

Yesterday's decision by the Airbus supervisory board follows a report by a committee headed by Mr Edzard Reuter, former chairman of Daimler-Benz.

The supervisory board, also chaired by Mr Reuter, said it expected the partner companies to reach a memorandum of understanding by the end of the year. A decision on the precise form the company would take would be reached by 1999.

Turkey confirms Erbakan as first Islamist premier

By John Barham in Ankara

Turkey's parliament yesterday confirmed in office the country's first Islamist prime minister but not before one deputy threw a punch during voting after a short but rowdy debate.

The coalition between Mr Necmettin Erbakan, leader of the Islamic party Refah, and the centre-right True Path party of former prime minister Mrs Tansu Çiller was approved by 13 votes in the 550-member parliament.

Voting was interrupted briefly when Mr Emre Gönensay, a former foreign minister, was punched by a True Path party colleague for voting against the coalition.

After the vote Mr Erbakan said: "I believe there will be a new start for Turkey. We will work day and night with the spirit of worship. Our citizens will be happy they have been saved from chaos. God willing, this government will work for a long time."

Mrs Çiller defended her controversial decision to support the first Islamic premier in the 73-year history of the Turkish republic. "We have chosen the difficult but correct path," she said, adding that there had been a choice between deadlock and "democratic opening".

Yesterday's vote follows a period of political confusion since Mrs Çiller's coalition government collapsed in September. Inconclusive general elections were held in December and since then the country has been run by a succession of caretaker prime ministers and a shortlived conservative coalition that fell in June.

Few political analysts believe Mr Erbakan's government will be long lasting. Mr Hasan Cemal, senior political columnist on the pro-Çiller newspaper Sabah, predicted it would last until spring and would carry out "a populist cycle [of policies]". He expects Mr Erbakan will call elections early next year in the hope of winning a majority.

"Refah's primary [objective] is to show people it was possible for an Islamist to become prime minister," Mr Cemal said. "A kind of taboo has been broken."

Some analysts had expected the secularist military to prevent Refah taking office. Commentators believe Refah will avoid any direct challenge to the secular establishment, such as shifting the country's traditionally pro-western foreign policy. They expect the Islamists to install supporters in government departments and gradually move towards pro-Islamic policies.

But fears are growing that Mr Erbakan may adopt a more aggressive stance towards Greece, Turkey's traditional rival, to bolster his popularity.

Some analysts expected Mrs Çiller's alliance with Refah would split her party, but only seven MPs have quit True Path and 14 others refused to back her in yesterday's vote.

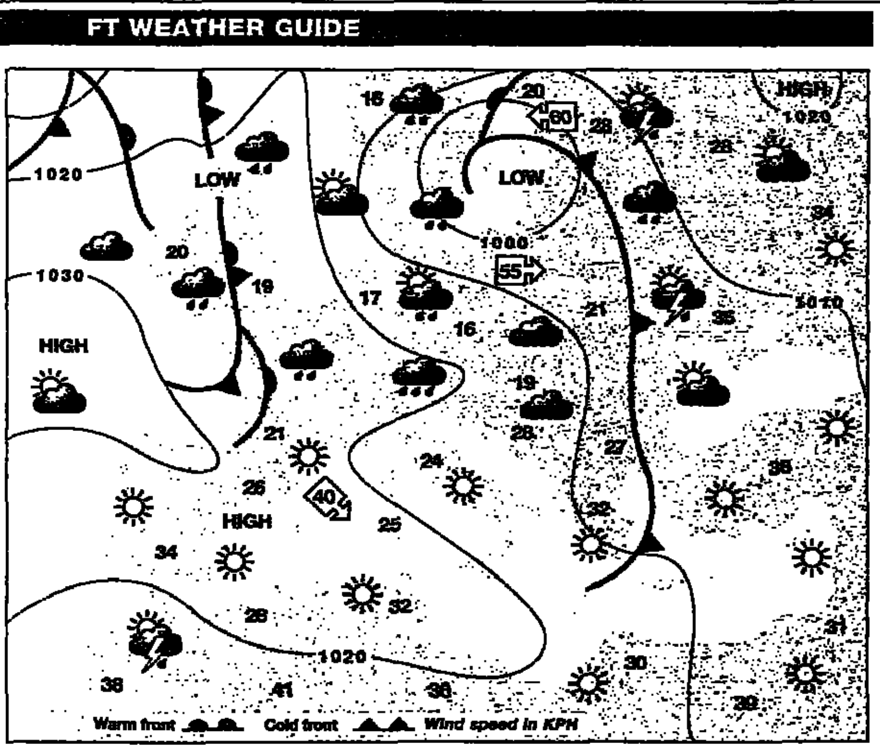
FT WEATHER GUIDE

Europe today

Cool air will move across the Benelux towards the Alps in the wake of an active depression over the Baltic Sea. As a result, temperatures will remain low over northern France, the Benelux and Germany. Central France will have rain. The Mediterranean will be mainly sunny and dry. Temperatures in southern Spain, Greece and Turkey will exceed 35C. A cold front over eastern Europe will be preceded by thunderstorms. Southern Sweden and Finland will have rain and winds will reach 60 kph.

Five-day forecast

Temperatures over central Europe are expected to rise in the second part of the week, but the British Isles and Scandinavia will remain unsettled with cloud and rain. Sweden and Finland will have persistent rain over the next few days. Spain and Greece will continue warm but thunder showers are likely. Italy will continue cool for most of the week but temperatures will rise later in the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	cloudy	26	Caracas	fair	33	Faro	sun	28	Madrid	sun	31	Rangoon	cloudy	32
	Celsius		Belfast	drzzl	19	Cardiff	cloudy	20	Frankfurt	shower	20	Majorca	sun	26	Reykjavik	rain	12
Abu Dhabi	sun	44	Belgrade	shower	19	Casablanca	fair	24	Geneva	drzzl	20	Malta	sun	27	Rio	shower	24
Accra	cloudy	27	Berlin	thund	17	Chicago	fair	24	Gibraltar	sun	24	Manchester	drzzl	19	Rome	fair	25
Algiers	fair	29	Bermuda	shower	27	Cologne	fair	19	Glasgow	drzzl	20	Manila	shower	33	S. Frsco	fair	22
Amsterdam	fair	17	Bogota	fair	20	Dakar	cloudy	30	Hamburg	shower	15	Melbourne	shower	13	Seoul	fair	27
Athens	sun	35	Bombay	shower	33	Dallas	fair	38	Helsinki	rain	20	Mexico City	fair	24	Singapore	shower	31
Atlanta	fair	34	Brussels	fair	18	Delhi	fair	33	Hong Kong	cloudy	32	Miami	fair	38	Stockholm	rain	14
B. Aires	shower	12	Budapest	cloudy	19	Dubai	fair	45	Honolulu	fair	31	Milan	fair	23	Strasbourg	shower	19
B.ham	cloudy	21	C.hagen	rain	18	Dublin	fair	20	Istanbul	sun	33	Montreal	thund	26	Sydney	fair	16
Bangkok	thund	36	Cairo	sun	38	Dubrovnik	fair	26	Jakarta	cloudy	32	Moscow	fair	31	Tangier	fair	28
Barcelona	sun	24	Cape Town	sun	18	Edinburgh	cloudy	21	Jersey	fair	16	Munich	rain	17	Tel Aviv	sun	35
									Karachi	fair	37	Nairobi	fair	26	Tokyo	rain	23
									Kuwait	sun	47	Naples	sun	25	Toronto	fair	25
									L. Angeles	fair	22	Nassau	thund	32	Vancouver	cloudy	22
									Las Palmas	fair	26	New York	thund	32	Venice	fair	24
									Lima	cloudy	17	Nice	sun	25	Vienna	shower	19
									Lisbon	sun	32	Nicosia	sun	35	Warsaw	rain	19
									London	cloudy	22	Oslo	cloudy	18	Washington	cloudy	35
									Lux.bourg	fair	18	Paris	fair	20	Wellington	shower	10
									Lyon	cloudy	21	Perth	cloudy	18	Winnipeg	sun	23
									Madeira	fair	24	Prague	fair	15	Zurich	rain	16